

*In the opinion of Bond Counsel and the Attorney General of the State of Michigan, subject to compliance with certain tax-related covenants, under existing law, interest on the Bonds, other than the Taxable Bonds, is excluded from gross income for federal income tax purposes except as described under "TAX MATTERS" herein, and the Bonds (including the Taxable Bonds) and the interest thereon are exempt from all taxation provided by the laws of the State of Michigan except for estate taxes and taxes on gains realized from the sale, payment or other disposition of such Bonds. See "TAX MATTERS" herein. In the opinion of Bond Counsel and the Attorney General of the State of Michigan, interest on the Taxable Bonds is included in gross income for federal income tax purposes.*

**\$10,865,000**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES**  
**AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(OLD REDFORD ACADEMY PROJECT), SERIES 2005A**

**\$245,000**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES**  
**AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(OLD REDFORD ACADEMY PROJECT), SERIES 2005B**  
**FEDERALLY TAXABLE**

**Dated: Date of Delivery**

**Due: December 1, as shown on inside cover**

The Limited Obligation Revenue Bonds (Old Redford Academy Project), Series 2005A (the "Tax Exempt Bonds") and the Limited Obligation Revenue Bonds (Old Redford Academy Project), Series 2005B Federally Taxable (the "Taxable Bonds" and together with the Tax Exempt Bonds, the "Bonds") will be issued by the Michigan Public Educational Facilities Authority (the "Issuer") as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form, in denominations of \$5,000 or any integral multiple in excess thereof and purchasers will not receive physical certificates representing the ownership interest in the Bonds purchased by them. See "THE BONDS – Book-Entry-Only System."

The proceeds of the Bonds will be used to (i) pay capitalized interest; (ii) fund a debt service reserve fund; (iii) pay certain costs of issuance relating to the Bonds; and (iv) purchase the right to receive lease payments from the Old Redford Academy (the "Academy") under the Lease Financing Agreement (as defined below). Principal of, interest and premium, if any, on the Bonds are payable solely from assigned lease payments from the Academy pursuant to a lease financing agreement among the Academy, the Clothilde R. Smith Charitable Foundation (the "Foundation") and the Issuer (the "Lease Financing Agreement") and from funds pledged under an indenture between the Issuer and U.S. Bank National Association, St. Paul, Minnesota, as Trustee (the "Indenture"). Under the Lease Financing Agreement the Foundation will finance the acquisition and improvement of the facilities leased to the Academy for use as a public school academy.

Interest on the Bonds will accrue from the date of delivery and will be payable semi-annually on each June 1 and December 1, commencing June 1, 2006. Principal of and interest on the Bonds will be paid by the corporate trust office of the U.S. Bank National Association, St. Paul, Minnesota, the Trustee and Paying Agent. So long as DTC or its nominee, Cede & Co., is the registered owner of the Bonds, such payments will be made directly to DTC of such nominee. Disbursements of such payments to the Direct Participants is the responsibility of DTC, and disbursements of such payments to the beneficial owners is the responsibility of the Direct Participants and the Indirect Participants, as more fully described herein.

The Bonds maturing on or after December 1, 2016 are subject to optional redemption beginning December 1, 2015 and mandatory redemption as described herein. See "THE BONDS – Redemption of the Bonds Prior to Maturity" herein.

THE BONDS ARE PAYABLE SOLELY FROM THE ACADEMY'S ASSIGNED LEASE PAYMENTS UNDER THE LEASE FINANCING AGREEMENT AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE LEASE PAYMENTS UNDER THE LEASE FINANCING AGREEMENT. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, CENTRAL MICHIGAN UNIVERSITY (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, CENTRAL MICHIGAN UNIVERSITY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER. SEE "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" AND "RISK FACTORS" HEREIN.

**This cover page contains certain information for quick reference only. It is not a summary of this issue. Purchase of the Bonds involves a high degree of risk and the Bonds are a speculative investment. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision, and should give particular attention to the material under the caption "RISK FACTORS" herein.**

The Bonds are offered when, as and if issued by the Issuer and received and accepted by the Underwriters and subject to the approval of legality by Dickinson Wright PLLC, Bloomfield Hills, Michigan, Bond Counsel, and the Attorney General of the State of Michigan, and certain other conditions. Certain legal matters will be passed upon by Collins and Blaha P.C., Southfield, Michigan, as counsel to the Academy and by Clark Hill PLC, Birmingham, Michigan as Underwriters' Counsel. It is expected that the Bonds in book-entry form will be available for delivery against payment therefor on or about December 13, 2005.

**NatCity Investments, Inc.**

**Robert W. Baird & Co. Incorporated**

## MATURITY SCHEDULE

### TAX EXEMPT BONDS

<b><u>Due December 1</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>
2008	\$ 100,000	4.250%	4.280%
2014	240,000	5.000%	5.130%
2015	250,000	5.000%	5.200%

\$1,035,000 Term Bonds due December 1, 2013; Interest Rate 5.000%; Yield 4.790%

\$2,165,000 Term Bonds due December 1, 2022; Interest Rate 5.250%; Yield 5.450%

\$3,720,000 Term Bonds Due December 1, 2030; Interest Rate 5.875%; Yield 5.920%

\$3,355,000 Term Bonds Due December 1, 2035; Interest Rate 6.000%; Yield 6.000%

### TAXABLE BONDS

<b><u>Due December 1</u></b>	<b><u>Amount</u></b>	<b><u>Interest Rate</u></b>	<b><u>Yield</u></b>
2007	\$ 165,000	6.500%	6.500%
2008	80,000	6.500%	6.500%

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

No dealer, broker, salesperson or other person has been authorized by the Issuer, the Academy, the Foundation or the Underwriters to give any information or to make any representation with respect to the Bonds other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy and, there shall not be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The descriptions of the documents in the Official Statement are summaries thereof and reference is made to the actual documents for a complete understanding of the contents of such documents.

The Trustee assumes no responsibilities for this Official Statement and has not reviewed or undertaken to verify any information contained herein.

IN MAKING ANY INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM THE ISSUER (WITH RESPECT TO THE INFORMATION UNDER THE CAPTION "THE ISSUER" ONLY), THE ACADEMY, THE FOUNDATION, DTC AND OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY AND COMPLETENESS, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY THE UNDERWRITERS. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE AND NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE THE IMPLICATION THAT THERE HAS BEEN NO CHANGE IN ANY OF THE INFORMATION SET FORTH HEREIN SINCE THE DATE HEREOF.

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## **OFFICIAL STATEMENT**

**\$10,865,000**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES**  
**AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(OLD REDFORD ACADEMY PROJECT), SERIES 2005A**

**\$245,000**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES**  
**AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(OLD REDFORD ACADEMY PROJECT), SERIES 2005B**  
**FEDERALLY TAXABLE**

### **INTRODUCTION**

This Official Statement (including the cover page and Exhibits) is provided to furnish information in connection with the issuance and sale by the Michigan Public Educational Facilities Authority (the "Issuer") of its Limited Obligation Revenue Bonds (Old Redford Academy Project), Series 2005A in the aggregate principal amount of \$10,865,000 (the "Tax Exempt Bonds") and its Limited Obligation Revenue Bonds (Old Redford Academy Project), Series 2005B Federally Taxable in the aggregate principal amount of \$245,000 (the "Taxable Bonds" and together with the Tax Exempt Bonds, the "Bonds"). The Bonds will be limited obligations of the Issuer as described under the caption "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein.

The Bonds will be issued under a Master Indenture, dated as of December 1, 2005 (the "Master Indenture"), between the Issuer and U.S. Bank National Association, as Trustee (the "Trustee"), as supplemented by a First Supplemental Indenture, dated as of December 1, 2005 (the "First Supplemental Indenture" and together with the Master Indenture, the "Indenture"). The proceeds of the Bonds will be used to (i) pay capitalized interest; (ii) fund a debt service reserve fund; (iii) pay certain costs of issuance relating to the Bonds; and (iv) purchase the right to receive lease payments from Old Redford Academy (the "Academy") under the Lease Financing Agreement (as defined below).

The Clothilde R. Smith Charitable Foundation (the "Foundation") will finance the acquisition and improvement of the Project (as defined below) pursuant to the terms of a Lease Financing Agreement dated as of December 1, 2005 among the Issuer, the Academy, and the Foundation (the "Lease Financing Agreement"). The Lease Financing Agreement will finance the costs of (a) the acquisition of land and an existing approximately 20,000 square foot school building, (b) the partial demolition of the existing school building, (c) the construction of approximately 60,000 square feet of new space in replacement thereof and in addition thereto; and (d) the renovation, furnishing and equipping thereof, all to be located at 17195 Redford, City of Detroit, Wayne County, Michigan 48219 (the "Facilities") and occupied by the Academy for use as a public school academy (collectively, the "Project"). The Academy will lease the Facilities from the Foundation pursuant to a lease agreement dated as of December 1, 2005 (the "Lease"). The Foundation's right to receive lease payments from the Academy will be irrevocably assigned by the Foundation to the Issuer pursuant to the terms of the Lease Financing Agreement. The Academy's lease payments assigned to the Issuer under the Lease Financing Agreement will be sufficient to pay the principal of, premium, if any and interest on the Bonds when due.

In order to ensure that the Academy will meet its obligations under the Lease Financing Agreement, the Academy has assigned a portion (not exceeding twenty percent (20%)) of the State School Aid to be received by the Academy from the State of Michigan (the "Direct Payments") and other funds pledged by the Academy under the Indenture. Pursuant to the State Aid Agreement (the "State Aid Agreement") dated as of December 1, 2005, by and among the Academy, the Trustee, the Issuer, Central Michigan University, as authorizing body and fiscal agent for the Academy, and the State Treasurer, the Direct Payments are to be paid to the Trustee and used to pay the Academy's obligations under the Lease Financing Agreement. The Bonds are further secured by a Mortgage from the Foundation granting the Trustee a first mortgage lien, subject to permitted encumbrances, on the Facilities.

### **THE PROJECT**

The Project will allow the Academy to consolidate its elementary site by replacing eight modular classrooms and three classrooms located in the basement of another building to one elementary school building site. The Project will also allow the Academy to add a preschool, a dedicated science lab, a library/media room, upgrade its playground area, and add a cafeteria that will be used as a multi-purpose room. Additionally, the Project will allow the Academy to increase the total number of classrooms available from 18 to 31 classrooms.

THE BONDS ARE PAYABLE SOLELY FROM THE ACADEMY'S ASSIGNED LEASE PAYMENTS UNDER THE LEASE FINANCING AGREEMENT AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY (20%) PERCENT OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE LEASE PAYMENTS UNDER THE LEASE FINANCING AGREEMENT. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, CENTRAL MICHIGAN UNIVERSITY (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, CENTRAL MICHIGAN UNIVERSITY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER. SEE "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" AND "RISK FACTORS" HEREIN.

### **THE ISSUER**

The Issuer is a public body corporate and politic of the State of Michigan (the "State"), created by Executive Order 2002-3, compiled at §12.192 of the Michigan Compiled Laws, and is housed within the Michigan Department of Treasury. The Issuer was established for, among other purposes, the purpose of lending money to public school academies within the State for financing or refinancing the acquisition, construction and equipping of public school facilities and for other purposes. In order to effectuate such purposes, the Issuer is authorized to issue its bonds or notes and to make money available to public school academies by the purchase of, among other things, lease financing agreements or making loans to a nonprofit corporation for the benefit of a public school academy.

The Issuer is governed by a Board of Trustees (the "Board"). The members of the Board are appointed by the Governor of the State with the advice and consent of the State Senate. The members serve for various terms and continue to serve until successors are appointed and file the oath of office. The members of the Board are:

Ganesh V. Reddy, Chairperson	Director of Business Development-Government HTC Global Services, Inc. Troy, Michigan
Mark J. Burzych	Partner Foster, Swift, Collins & Smith, P.C. Lansing, Michigan
Timothy A. Hoffman	Director of Regulatory Affairs Consumers Energy Jackson, Michigan
David S. Mittleman	Partner Church, Kritselis & Wyble, P.C. Lansing, Michigan
Jay B. Rising	State Treasurer Lansing, Michigan

The Indenture provides that the covenants, stipulations, promises, agreements and obligations of the Issuer contained in the Indenture are those of the Issuer and not of any member of the Board or any officer or employee of the Issuer in his or her individual capacity and that no recourse shall be had for the payment of the principal of, premium, if any, or interest on the Bonds or for any claim based thereon or on the Indenture against any member of the Board, any officer or employee of the Issuer or any person executing the Bonds.

The Issuer is housed within the State Department of Treasury but exercises its statutory functions independently of the State Treasurer. The Issuer's address is Treasury Building, 430 West Allegan Street, Lansing, Michigan 48922, and its telephone number is (517) 335-0994.

The Executive Director of the Issuer is Thomas J. Letavis.

The Bonds are limited obligations of the Issuer as described in this Official Statement. The Issuer is not generally liable on the Bonds or on any other obligation incurred by the Issuer under the Indenture or the Lease Financing Agreement. The Bonds are not general obligations and do not constitute debts or pledges against the general credit of the Issuer or the credit or taxing power of the State of Michigan. The Bonds are limited obligations of the Issuer, which will, if and when issued, be payable solely through revenues, properties or other funds as described in this Official Statement, the Indenture and the Lease Financing Agreement. No owner of any Bond shall have the right to demand payment of the principal of, premium, if any, or interest on such Bond out of any funds to be raised by taxation. The Issuer has no taxing power.

The Issuer has not prepared any material for inclusion in this Official Statement except the matters under the heading "THE ISSUER." The distribution of this Official Statement has been duly approved and authorized by the Issuer. Such approval and authorization do not, however, constitute a representation of approval by the Issuer of the accuracy or sufficiency of any information contained herein except to the extent of the information contained in this Section.

### **THE ACADEMY**

The Academy is a public school academy operating as a Michigan non-profit corporation and a governmental agency of the State of Michigan, organized pursuant to Part 6A of Chapter 380 of the Michigan Revised School Code, Michigan Compiled Laws ("M.C.L.") § 380.501 et. seq. and the Michigan Nonprofit Corporation Act, Act No. 162 of the Public Acts of 1982, M.C.L. § 450.2101 et. seq.

The Academy was founded in 1999 and currently serves grades K through 12. The Academy is located in the City of Detroit, Wayne County, Michigan. The Academy operates under a charter contract (the "Charter"), with Central Michigan University Board of Trustees, its authorizing body (the "Authorizing Body"). After three years, the Academy requested and received an early reauthorization of its Charter which extended its Charter for a 7 year term ending June 30, 2009. Since its opening in September of 1999, the Academy's enrollment has grown from 270 students to 1,250 students for the 2005-06 school year.

The mission of the Academy is to educate students in a clean and safe environment, incorporating a Liberal Arts program. The curriculum represents an interdisciplinary concept to include the four core content areas of language arts, math, science and social studies. The fine arts, foreign language, computer technology, music and health/physical education are included to enhance the educational program.

For additional information regarding the Academy, see "EXHIBIT A – OLD REDFORD ACADEMY."

### **THE FOUNDATION**

The Clothilde R. Smith Charitable Foundation (the "Foundation"), was formed in 1997 by Melvin E. Smith; a former U.S. Drug Enforcement Agency official, in memory of his mother, Mrs. Clothilde R. Smith (1918-1996), who was an original founder of an African American Catholic Church and school in Detroit, Michigan known as Our Lady of Victory Parish. The function of the Foundation is to provide support to the Academy and to provide its students with the diverse skills necessary to exemplify high achievement, academic excellence and respect for self and others. Since its inception, the Foundation has been managed by a majority of family members

of Mrs. Smith. The entire Board of Directors of the Foundation includes the following members: Karon Smith; Scott Smith; Jean L. Duplessis; Monica A. Duplessis; and Phillip E. Duplessis.

Since the inception of the Academy, the Foundation has assisted the Academy in providing support services for needy families within its educational community. These services have included: free uniforms and other clothing for needy students, financial support for those families in need, and the purchase of buses for transportation of students.

### USE OF PROCEEDS

The proceeds of the initial sale and delivery of the Bonds will be deposited with the Trustee in a special depository account entitled the "Proceeds Fund" and such proceeds, including any investment income thereon, shall be disbursed by the Trustee to pay Project costs, including costs of issuance of the Bonds. The sources and uses of funds to pay the costs of the Project are estimated to be as follows:

	<u>Tax Exempt Bonds</u>	<u>Taxable Bonds</u>
Sources of Funds:		
Bond Proceeds		
Par Amount	\$10,865,000.00	\$245,000.00
Net Original Discount	<u>- 61,346.00</u>	<u>                    </u>
Total Sources:	\$10,803,654.00	\$245,000.00
Uses of Funds:		
Purchase of Lease Financing Agreement	\$9,500,330.30	
Capitalized Interest	287,488.12	\$6,482.71
Reserve Account Deposit	799,762.50	
Underwriters' Discount	216,073.08	6,126.92
Costs of Issuance <sup>1</sup>	<u>                    </u>	<u>232,390.37</u>
Total Uses:	\$10,803,654.00	\$245,000.00

<sup>1</sup> Estimated amount to pay costs of issuance, excluding Underwriters' discount, but including legal fees, printing costs, certain other fees and expenses.



## THE BONDS

### **General**

The Bonds will be issuable as fully registered bonds without coupons in denominations of \$5,000 or any integral multiple in excess thereof ("Authorized Denominations"). The Bonds will mature on the dates and in the amounts set forth on the inside cover page of this Official Statement, subject to redemption prior to maturity, and will bear interest until paid at the rates shown on the inside cover page of this Official Statement, payable semi-annually on June 1 and December 1 of each year, commencing on June 1, 2006 (each an "Interest Payment Date").

Interest on the Bonds is computed on the basis of a 360-day year comprised of twelve 30-day months. Payments of principal of and premium, if any, with respect to the Bonds will be made upon surrender of the Bonds at the office of the Trustee. Payments of interest on the Bonds will be made by check or draft mailed on or before each Interest Payment Date to the registered owner thereof as of the Record Date at his or her address as it last appears on the registration books of the Trustee irrespective of any transfer or exchange of the Bonds subsequent to the Record Date and prior to such Interest Payment Date. The "Record Date" means the 15th day of the calendar month immediately preceding any Interest Payment Date, or as otherwise specified in a Supplemental Indenture. Registered owners of \$1,000,000 or more in principal amount of the Bonds will have interest paid by wire transfer to the account specified by such Registered owner in writing to the Trustee at least five (5) days prior to the Record Date preceding the applicable Interest Payment Date.

### **Redemption of Bonds Prior to Maturity**

#### ***Optional Redemption***

The Tax Exempt Bonds maturing on or after December 1, 2016 are subject to redemption at the option of the Academy in whole or in part on any day commencing on or after December 1, 2015, which date shall be the first day for which notice of redemption may be given under the Indenture, at a redemption price of 100% of the principal amount to be redeemed, together with accrued interest to the date fixed for redemption.

#### ***Mandatory Sinking Fund Redemption***

The Tax Exempt Bonds maturing December 1, 2013, are subject to mandatory sinking fund redemption on December 1, 2009, and on each December 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Revenue Fund established pursuant to the Indenture as follows:

#### **Term Bonds Maturing December 1, 2013**

<b>Date</b>	<b>Principal Amount</b>
December 1, 2009	\$ 190,000
December 1, 2010	195,000
December 1, 2011	205,000
December 1, 2012	215,000
December 1, 2013**	230,000
** Maturity Date	

The Tax Exempt Bonds maturing December 1, 2022, are subject to mandatory sinking fund redemption on December 1, 2016, and on each December 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Revenue Fund established pursuant to the Indenture as follows:

**Term Bonds Maturing  
December 1, 2022**

<b>Date</b>	<b>Principal Amount</b>
December 1, 2016	\$ 265,000
December 1, 2017	280,000
December 1, 2018	290,000
December 1, 2019	305,000
December 1, 2020	325,000
December 1, 2021	340,000
December 1, 2022**	360,000
** Maturity Date	

The Tax Exempt Bonds maturing December 1, 2030, are subject to mandatory sinking fund redemption on December 1, 2023, and on each December 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Revenue Fund established pursuant to the Indenture as follows:

**Term Bonds Maturing  
December 1, 2030**

<b>Date</b>	<b>Principal Amount</b>
December 1, 2023	\$ 375,000
December 1, 2024	400,000
December 1, 2025	425,000
December 1, 2026	450,000
December 1, 2027	475,000
December 1, 2028	500,000
December 1, 2029	530,000
December 1, 2030**	565,000
** Maturity Date	

The Tax Exempt Bonds maturing December 1, 2035, are subject to mandatory sinking fund redemption on December 1, 2031, and on each December 1 thereafter, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date from amounts on deposit in the Revenue Fund established pursuant to the Indenture as follows:

**Term Bonds Maturing  
December 1, 2035**

<b>Date</b>	<b>Principal Amount</b>
December 1, 2031	\$ 595,000
December 1, 2032	630,000
December 1, 2033	670,000
December 1, 2034	710,000
December 1, 2035**	750,000
** Maturity Date	

### ***Extraordinary Redemption***

As provided in the Supplemental Indenture, in the event of damage to or destruction or condemnation of all or a portion of the Facilities, the Bonds are subject to optional redemption prior to maturity by the Issuer at the direction of the Academy, either in whole at any time or in part on any interest payment date in any order of maturity and from any series at a redemption price equal to the principal amount thereof, without premium, plus accrued interest to the date fixed for redemption.

### ***Mandatory Redemption Upon Determination of Taxability***

The Bonds are subject to mandatory redemption prior to maturity, as a whole and not in part, on the earliest practicable date for which notice can be given following the occurrence of a Determination of Taxability under the Indenture, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date.

### ***Notices of Redemption***

An authorized officer of the Issuer shall cause notice of each redemption to be given by the Bond Registrar and Paying Agent to the Registered Owner of any Bonds designated for redemption in whole or in part at the address as shall last appear upon the registration books maintained by the Bond Registrar and Paying Agent by mailing a copy of the redemption notice by first-class mail at least 30 days but not more than 60 days prior to the Redemption Date. A second notice of redemption shall be given within 60 days after a Redemption Date in the required manner to the Owners of redeemed Bonds which have not been presented for payment within 30 days after such Redemption Date. The failure of the Bond Registrar and Paying Agent to give notice to an Owner or the failure of any Owner to receive notice, or any defect in such notice will not affect the validity of the redemption of any Bonds.

When Bonds are to be redeemed in part, an authorized officer of the Issuer shall specify to the Bond Registrar and Paying Agent the Series designation, if any, maturity, Class and Original Issue Date of the Bonds from which Bonds or portions of Bonds to be redeemed shall be selected. Subject to such specification by the Issuer, the particular Bonds or portions of Bonds to be redeemed shall be selected by the Bond Registrar and Paying Agent by lot or in such other manner and at such time as the Bond Registrar and Paying Agent in its discretion may deem fair, except that in selecting Bonds for redemption, the Bond Registrar and Paying Agent will treat each Bond as representing that number of Bonds that is obtained by dividing the principal amount of such Bond by the minimum Authorized Denomination applicable thereto. Notwithstanding anything in this Indenture to the contrary, Bonds shall be selected for redemption such that following such redemption only Bonds in Authorized Denominations remain outstanding.

Each notice of redemption shall specify the Redemption Date, the place or places of payment, that payment will be made upon presentation and surrender of the Bonds to be redeemed, that interest, if any, accrued to the Redemption Date will be paid as specified in said notice, and that on and after the Redemption Date interest thereon will cease to accrue. If less than all the Outstanding Bonds are to be redeemed, the notice of redemption shall specify the Series, Class, maturity, Original Issue Date and numbers of the Bonds or portions thereof in any Authorized Denomination to be redeemed.

On the Redemption Date, the Redemption Price, together with the accrued interest thereon to such date, shall become due and payable; and from and after such date, notice (if required) having been given and moneys available solely for such redemption being on deposit with the Trustee or the Bond Registrar and Paying Agent in accordance with the provisions of this Section 404, then, notwithstanding that any Bonds called for redemption shall not have been surrendered, no further interest shall accrue on any of such Bonds. From and after such date of redemption (such notice having been given and moneys available solely for such redemption being on deposit with the Trustee or the Bond Registrar and Paying Agent), the Bonds to be redeemed shall not be deemed to be Outstanding hereunder, and the Issuer shall be under no further liability in respect thereof.

Upon surrender of any Bond in a denomination greater than the minimum Authorized Denomination, which Bond has been called for redemption in part only, the Issuer shall execute and the Bond Registrar and Paying Agent

shall authenticate and deliver to the registered Owner thereof a new Bond or Bonds of Authorized Denominations in an aggregate principal amount equal to, and otherwise the same as, the unredeemed portion of the Bond surrendered.

### **Book-Entry-Only System**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate in typewritten form will be issued for each stated maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, REFERENCES HEREIN TO BONDHOLDERS, HOLDERS OR OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS" HEREIN) SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation and Emerging Markets Clearing Corporation, (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect participants to Beneficial Owners will be governed by

arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Academy as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal, premium, if any, and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participant's accounts upon DTC's receipt of funds and corresponding detail information from the Trustee, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Issuer. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository); in that event, the Bond certificates will be printed and delivered to the Participants for delivery to the Beneficial Owners. The information in this section concerning DTC and DTC's book entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer assumes no responsibility for the accuracy thereof.

NEITHER THE ISSUER, THE ACADEMY, THE TRUSTEE, NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; (iii) THE DELIVERY OF ANY NOTICE BY THE DEPOSITORY TO ANY PARTICIPANT OR BY ANY PARTICIPANT TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO BONDHOLDERS UNDER THE TERMS OF THE INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS.

## **SOURCES OF PAYMENT AND SECURITY FOR THE BONDS**

### **General**

The Bonds are limited obligations of the Issuer and are payable by the Issuer solely from the assigned lease payments due from the Academy under the Lease Financing Agreement (as defined below) and other funds pledged by the Academy under the Indenture. The Academy has pledged a portion of its State School Aid payments to pay the assigned lease payments due under the Lease Financing Agreement and with respect to this pledge the Academy has entered into a State Aid Agreement dated as of December 1, 2005 relating to the intercept and/or advance of its State School Aid payments. The Bonds are further secured by a Mortgage from the Foundation granting the Trustee a first mortgage lien, subject to permitted encumbrances, on the Facilities.

THE BONDS ARE PAYABLE SOLELY FROM THE ACADEMY'S ASSIGNED LEASE PAYMENTS UNDER THE LEASE FINANCING AGREEMENT AND OTHER FUNDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NO MORE THAN TWENTY PERCENT (20%) OF THE STATE SCHOOL AID RECEIVED BY THE ACADEMY IN EACH FISCAL YEAR MAY BE LEGALLY AVAILABLE TO PAY THE LEASE PAYMENTS UNDER THE LEASE FINANCING AGREEMENT. ALL STATE SCHOOL AID RECEIVED BY THE ACADEMY IS SUBJECT TO ANNUAL APPROPRIATION BY THE STATE LEGISLATURE AND THE LEGISLATURE IS NOT REQUIRED TO APPROPRIATE MONIES FOR SUCH PURPOSE. THE BONDS DO NOT CONSTITUTE AN OBLIGATION, EITHER GENERAL, SPECIAL, OR MORAL, OF THE STATE, CENTRAL MICHIGAN UNIVERSITY (THE AUTHORIZING BODY OF THE ACADEMY), OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE, AND NEITHER THE FULL FAITH AND CREDIT NOR ANY TAXING POWERS OF THE STATE, CENTRAL MICHIGAN UNIVERSITY OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE ARE PLEDGED TO THE PAYMENT OF PRINCIPAL AND INTEREST WITH RESPECT TO THE BONDS. THE ISSUER HAS NO TAXING POWER.

### **The Lease Financing Agreement**

The Foundation will finance the Project pursuant to the terms of the Lease Financing Agreement. The Foundation through the Lease Financing Agreement will finance the costs of (a) the acquisition of land and an existing approximately 20,000 square foot school building, (b) the partial demolition of the existing school building, (c) the construction of approximately 60,000 square feet of new space in replacement thereof and in addition thereto; and (d) the renovation, furnishing and equipping thereof, all to be located at 17195 Redford, City of Detroit, Wayne County, Michigan 48219 and occupied by the Academy for use as a public school academy. The Academy will lease the Facilities from the Foundation pursuant to the Lease. The Foundation's right to receive lease payments from the Academy will be irrevocably assigned by the Foundation to the Issuer pursuant to the terms of the Lease Financing Agreement. The Academy's lease payments assigned to the Issuer under the Lease Financing Agreement will be sufficient to pay the principal of, premium, if any, and interest on the Bonds when due as well as certain other Bond servicing costs.

### **State School Aid Pledge**

The Issuer's acquisition of the Lease Financing Agreement with the proceeds of the Bonds will assist in the financing of the Academy's interests in its leased Facilities. Pursuant to the Lease Financing Agreement, the Academy has pledged the State School Aid payments to be received by it in each fiscal year from the State (the "Pledged State School Aid") to pay the lease payments due under the Lease Financing Agreement; provided that the Pledged State School Aid applied by the Trustee under the Indenture on behalf of the Academy to pay lease payments under the Lease Financing Agreement in any fiscal year of the Academy shall not exceed twenty percent (20%) of the amount of State School Aid payable to the Academy in such fiscal year.

The Academy agrees with the Issuer under the Lease Financing Agreement that if the State School Aid Act is modified to provide for a different schedule of periodic State School Aid payments than that now in effect, the Issuer, by written notice to the Trustee, the State Treasurer, the Academy and its Authorizing Body may designate different payment dates (and, to the extent necessary, different lease payment amounts) to provide for timely receipt of lease payments consistent with such revised State School Aid payment schedule.

### **Direct Transfer of State School Aid for Payment of the Lease Financing Agreement**

Under the Lease Financing Agreement the Academy has agreed to pay the lease payments from the State School Aid to be allocated to it and payable to its Authorizing Body. The Issuer and the Academy in the Lease Financing Agreement, and the Academy and its Authorizing Body in the State Aid Agreement, agree that the State Treasurer is irrevocably directed to transmit 97% of the Academy's State School Aid payments directly to the Trustee, who shall set aside from such moneys the amount to pay the next lease payment of the Academy required under the Lease Financing Agreement when due and then distribute the remainder of such moneys to the Academy's Authorizing Body; provided, that the amounts applied by the Trustee to pay lease payments required under the Lease Financing Agreement in any fiscal year of the Academy shall not exceed twenty percent (20%) of the amount of State School Aid payable to the Academy in such fiscal year.

If for any reason the amount held by the Trustee on the due date of any lease payment is insufficient to pay the lease payment due under the Lease Financing Agreement, then in that event the Academy pledges to use any and all other available funds to satisfy that lease payment obligation.

If, on the due date for any Academy's lease payment, the funds with the Trustee are insufficient to pay the lease payment due under the Lease Financing Agreement, the Academy, pursuant to the State School Aid Act to the extent necessary to meet that payment obligation, assigns to the Issuer and authorizes and directs the State Treasurer to intercept and/or advance not to exceed 97% of any State School Aid payment to be made to or for the Academy which is dedicated for distribution or for which the appropriation authorizing such payment has been made. Any such advance will be made directly to the Trustee and applied on the following priority basis: first, the amount required to pay the lease payment due under the Lease Financing Agreement shall be held and applied by the Trustee for that purpose; second, any other amounts owing to the Issuer by the Academy under its Lease Financing Agreement when due shall be held and applied by the Trustee for that purpose; and third, any remaining amount shall be immediately distributed to the Academy's Authorizing Body or as otherwise directed by the Issuer. The Lease Financing Agreement provides that any such intercept and/or advance process with respect to the Academy shall continue until sufficient funds are deposited with the Trustee to pay all of the Academy's lease payments due under the Lease Financing Agreement. Notwithstanding the foregoing, no more than twenty percent (20%) of the State School Aid payments received by the Academy in each fiscal year may be legally available to pay principal and interest on the related Bonds through its lease payments due under the Lease Financing Agreement.

### **State School Aid Source**

The primary source of revenue received by the Academy is State School Aid which is a per pupil foundation allowance provided by the State for all public schools (including public school academies). The amount of State School Aid received by any individual school (including the Academy) is based upon its per pupil enrollment. The amount of State School Aid available in any year to pay the per pupil allowance is subject to appropriation by the Michigan Legislature.

See "EXHIBIT A - OLD REDFORD ACADEMY – State School Aid Payments" for the Academy's State School Aid per pupil foundation allowance for the 2000–01 through 2005-06 fiscal years.

Pursuant to the State School Aid Act, a public school academy's annual entitlement to State School Aid for the 2005-06 fiscal year shall be paid in installments equal to one-eleventh of such entitlement on the 20<sup>th</sup> (or if the 20<sup>th</sup> falls on a Saturday, Sunday or legal holiday, on the immediately preceding regular business day) in each of the months of October through August, subject to certain statutory adjustments.

### ***Pupil Membership Counts***

State School Aid is paid to a public school academy on a per pupil basis. The State School Aid Act currently provides that pupil membership is based on a blended count of 75% of the current September count plus 25% of the prior February supplemental count, all as determined by the Michigan Department of Education. The State School Aid Act contains alternative methodologies for determining pupil counts for public school academies which have been in existence less than two years or which have suspended operations for one or more semesters. For school districts, including public school academies, which have pupils enrolled in a grade level that was not

offered the prior year, pupil membership counts for that grade level are based on an average of the current September count and the following February supplemental count, all as determined by the Michigan Department of Education. None of the alternative methodologies for determining pupil counts apply to the Academy.

### ***Legislative Changes in the State School Aid Act***

The State School Aid Act may be modified by the Michigan Legislature, subject only to certain State constitutional parameters. The amount, timing and methodology for calculation of State School Aid have changed significantly in recent years. State School Aid payments are subject to annual appropriation and future modification by the Michigan Legislature, subject only to such constitutional parameters.

### **The Mortgage**

Pursuant to a Mortgage from the Foundation, as additional security for the Bonds (the “Mortgage”), the Trustee will receive a first mortgage lien, subject to permitted encumbrances, on the Facilities to secure the payment of the Academy’s lease payments due under the Lease Financing Agreement.

Under the State School Aid Act, property of a public school academy that was acquired substantially with funds appropriated under such Act is required to be transferred to the State by the public school academy in certain events, including revocation of its charter or if its charter has not been reissued by the authorizing body. In such event, the State School Aid Act authorizes the State Treasurer to sell such property and requires the State Treasurer to apply the net proceeds from such sale first to pay any debt of the public school academy secured by such property, and second, to deposit any remaining amount into the State School Aid fund.

There are potential risks relating to environmental liability associated with ownership of or secured lending with respect to real property. The Foundation has been provided a Phase I Report, which determined that the Phase I Assessment revealed no evidence of recognized environmental conditions. See “RISK FACTORS – Environmental Regulations” herein. If hazardous substances are found on real property, however, owners or secured lenders may be held liable for costs and other damages relating to such hazardous substances unless they comply with provisions of law designed to provide them with liability protection. The Trustee as mortgagee on behalf of the bondholders may avoid such liability with respect to the Project, if it does not directly participate in the ownership or management of the Project. Moreover, the Trustee as such mortgagee may avoid potential liability to remediate contamination under Michigan law if a baseline environmental assessment (“BEA”) is timely conducted and the results of the BEA are timely disclosed to the Michigan Department of Environmental Quality and any subsequent purchaser or transferee. Alternatively, if at the time of any foreclosure an appropriate environmental evaluation is conducted and no contamination or other recognized environmental conditions are found, the Trustee as mortgagee on behalf of the bondholders would not be subject to potential liability if preexisting contamination were later identified.

### **Certain Financial Information Concerning the State**

Complete financial statements of all of the State’s funds as included in the State’s Comprehensive Annual Financial Report (“CAFR”) prepared by the State’s Office of the State Budget are available from the Office of the State Budget website at [www.michigan.gov/budget](http://www.michigan.gov/budget). The State has agreed to file its CAFR with the Nationally Recognized Municipal Securities Information Repositories and the State Information Depository (as described in Rule 15c2-12(b)(5) of the Securities and Exchange Commission) annually.

Neither the Issuer nor the State of Michigan nor Central Michigan University shall be obligated to pay the Bonds or the interest thereon or other costs incident thereto, except that the Issuer shall be obligated to make such payments solely from the security for the Bonds described below. Neither the faith and credit of the Issuer or Central Michigan University nor the taxing power of the State of Michigan is pledged to the payment of the principal of, premium, if any, or the interest on, the Bonds. The Bonds are not general obligations of the Issuer, but are limited obligations payable solely from certain amounts payable by the Academy under the Lease Financing Agreement and other moneys pledged therefor under the Indenture. The Issuer has no taxing power.



## CHARTER SCHOOLS IN MICHIGAN

### General

In December of 1993, Michigan became the ninth state to pass charter school legislation. The current charter school statute is codified in the Revised School Code, § 380.501 – 380.507 of the Michigan Compiled Laws (M.C.L.). In Michigan, charter schools are known as public school academies. A public school academy is a state-supported public school that is funded through the State School Aid Act (1979 PA 94, as amended, M.C.L., 388.1601, *et. seq.*) and receives funding through a per pupil base foundation allowance. See “SOURCES OF PAYMENT AND SECURITY FOR THE BONDS – State School Aid Source” herein.

According to the Michigan Association of Public School Academies ("MAPSA"), there were 219 public school academies serving approximately 82,000 students during the 2004-05 school year. More than 50% of charter students are minorities and 58% of them qualify for free- or reduced-price lunch. Nearly 85% of Michigan's public school academies had increased or steady enrollment for the 2003-04 school year, and more than two-thirds of those schools have waiting lists. About 9% of charter students have special needs.

### Michigan Supreme Court Upholds Law

The Michigan Supreme Court ruled 5-1 on July 30, 1997 that Michigan's original public school academy law was constitutional. The Court ruled that "1993 PA 362 does not violate Constitution 1963, article 8 section 2 or section 3. Further, . . . the 1994 PA 416 repealer is valid and enforceable, requiring remand to the trial court for vacation of the injunction and entry of an order to the Department of Treasury to disburse funds to the public school academies operating under 1993 PA 362." *Council of Organizations and Others for Educ. about Parochialism, Inc. v. Michigan Dept. of Educ. et. al.*, 455 Mich. 557, 556 N.W.2d 208 (Mich. 1997).

### Michigan School Finance Reform

On June 15, 1994, the electors of the State of Michigan approved a ballot proposition ("Proposal A") to amend the State Constitution of 1963, in part, to increase the state sales tax from 4% to 6% as part of a complex plan to restructure the source of funding of public education (K-12) in Michigan in order to reduce reliance on local property taxes for school operating purposes and to equalize the per pupil finance resource disparities among all school districts.

## DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required for payment of principal of and interest on the Bonds.

### Tax Exempt Bonds

<b>Period Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Gross Debt Service</b>	<b>Annual Debt Service</b>
6/1/2006		\$ 286,539.17	\$ 286,539.17	
12/1/2006		307,006.25	307,006.25	\$ 593,545.42
6/1/2007		307,006.25	307,006.25	
12/1/2007		307,006.25	307,006.25	614,012.50
6/1/2008		307,006.25	307,006.25	
12/1/2008	\$ 100,000.00	307,006.25	407,006.25	714,012.50
6/1/2009		304,881.25	304,881.25	
12/1/2009	190,000.00	304,881.25	494,881.25	799,762.50
6/1/2010		300,131.25	300,131.25	
12/1/2010	195,000.00	300,131.25	495,131.25	795,262.50
6/1/2011		295,256.25	295,256.25	
12/1/2011	205,000.00	295,256.25	500,256.25	795,512.50

6/1/2012		290,131.25	290,131.25	
12/1/2012	215,000.00	290,131.25	505,131.25	795,262.50
6/1/2013		284,756.25	284,756.25	
12/1/2013	230,000.00	284,756.25	514,756.25	799,512.50
6/1/2014		279,006.25	279,006.25	
12/1/2014	240,000.00	279,006.25	519,006.25	798,012.50
6/1/2015		273,006.25	273,006.25	
12/1/2015	250,000.00	273,006.25	523,006.25	796,012.50
6/1/2016		266,756.25	266,756.25	
12/1/2016	265,000.00	266,756.25	531,756.25	798,512.50
6/1/2017		259,800.00	259,800.00	
12/1/2017	280,000.00	259,800.00	539,800.00	799,600.00
6/1/2018		252,450.00	252,450.00	
12/1/2018	290,000.00	252,450.00	542,450.00	794,900.00
6/1/2019		244,837.50	244,837.50	
12/1/2019	305,000.00	244,837.50	549,837.50	794,675.00
6/1/2020		236,831.25	236,831.25	
12/1/2020	325,000.00	236,831.25	561,831.25	798,662.50
6/1/2021		228,300.00	228,300.00	
12/1/2021	340,000.00	228,300.00	568,300.00	796,600.00
6/1/2022		219,375.00	219,375.00	
12/1/2022	360,000.00	219,375.00	579,375.00	798,750.00
6/1/2023		209,925.00	209,925.00	
12/1/2023	375,000.00	209,925.00	584,925.00	794,850.00
6/1/2024		198,909.38	198,909.38	
12/1/2024	400,000.00	198,909.38	598,909.38	797,818.76
6/1/2025		187,159.38	187,159.38	
12/1/2025	425,000.00	187,159.38	612,159.38	799,318.76
6/1/2026		174,675.00	174,675.00	
12/1/2026	450,000.00	174,675.00	624,675.00	799,350.00
6/1/2027		161,456.25	161,456.25	
12/1/2027	475,000.00	161,456.25	636,456.25	797,912.50
6/1/2028		147,503.13	147,503.13	
12/1/2028	500,000.00	147,503.13	647,503.13	795,006.26
6/1/2029		132,815.63	132,815.63	
12/1/2029	530,000.00	132,815.63	662,815.63	795,631.26
6/1/2030		117,246.88	117,246.88	
12/1/2030	565,000.00	117,246.88	682,246.88	799,493.76
6/1/2031		100,650.00	100,650.00	
12/1/2031	595,000.00	100,650.00	695,650.00	796,300.00
6/1/2032		82,800.00	82,800.00	
12/1/2032	630,000.00	82,800.00	712,800.00	795,600.00
6/1/2033		63,900.00	63,900.00	
12/1/2033	670,000.00	63,900.00	733,900.00	797,800.00
6/1/2034		43,800.00	43,800.00	
12/1/2034	710,000.00	43,800.00	753,800.00	797,600.00
6/1/2035		22,500.00	22,500.00	
12/1/2035	750,000.00	22,500.00	772,500.00	795,000.00
	<u>\$10,865,000.00</u>	<u>\$12,579,289.22</u>	<u>\$23,444,289.22</u>	<u>\$23,444,289.22</u>

**Taxable Bonds**

<b>Period Ending</b>	<b>Principal</b>	<b>Interest</b>	<b>Gross Debt Service</b>	<b>Annual Debt Service</b>
06/01/2006		\$ 7,431.67	\$ 7,431.67	
12/01/2006		7,962.50	7,962.50	\$ 15,394.17
06/01/2007		7,962.50	7,962.50	
12/01/2007	\$ 165,000.00	7,962.50	172,962.50	180,925.00
06/01/2008		2,600.00	2,600.00	
12/01/2008	80,000.00	2,600.00	82,600.00	85,200.00
	<u>\$245,000</u>	<u>\$36,519.17</u>	<u>\$281,519.17</u>	<u>\$281,519.17</u>

**LIMITATION ON ADDITIONAL INDEBTEDNESS**

The Academy in the Lease Financing Agreement will covenant that without the prior written consent of the Trustee, it will not incur indebtedness for borrowed money, guarantee the obligations of others or incur other pecuniary obligations, except:

- (a) obligations incurred in the ordinary course of business;
- (b) obligations contained in the Academy's management agreement with a management company which are in all respects subordinated in priority to the Lease Payments, Reserve Fund Payments and Additional Payments as defined in the Lease Financing Agreement;
- (c) state aid notes issued pursuant to Act No. 451, Public Acts of Michigan, 1976, as amended;
- (d) obligations being issued to finance or refinance capital improvements which are on a parity of security with the security for the Lease Payments, Reserve Fund Payments and Additional Payments as defined in the Lease Financing Agreement with respect to the pledged State School Aid, if the Academy delivers to the Trustee, prior to incurring such obligation, a written certificate signed by an authorized officer of the Academy certifying a Historical Coverage Ratio of not less than 1.40 and a Projected Coverage Ratio of not less than 1.40 disregarding for purposes of such certificate any debt service on the obligation to be incurred expected to be paid with proceeds of such obligation; and
- (e) purchase money obligations secured only by the property being financed and a pledge of State School Aid provided that the aggregate amount of such purchase money obligations outstanding at any one time shall not exceed fifteen (15%) percent of the State School Aid received by the Academy in the most recently completed fiscal year.

Obligations incurred pursuant to paragraph (d) above may be secured by the Mortgage if (a) the obligations are acquired or funded with proceeds of additional bonds of the Issuer, and (b) the facilities being financed or refinanced thereby are also pledged or mortgaged as parity security for Lease Payments, Reserve Fund Payments and Additional Payments, as defined in the Lease Financing Agreement.

For purposes of the certificate described in paragraph (d) above:

- (a) "Historical Coverage Ratio" means the Debt Service Coverage Ratio during each of the Academy's three most recent fiscal year;
- (b) "Projected Coverage Ratio" means, as of any date of determination, the projected Debt Service Coverage Ratio for the current fiscal year and each of the next five fiscal years of the Academy, including for such purpose both expected revenue resulting from the facilities, if any, to be

financed by the obligation to be incurred and debt service on the obligation expected to be incurred; and

- (c) "Debt Service Coverage Ratio" means for any period the ratio of (i) the amount of revenues (including, without duplication, proceeds of state aid notes available during such period) of the Academy available (after payment of operation expenses and debt service on any state aid notes issued by the Academy but before payment of subordinated management fees and other subordinated fees and expenses) in such period to pay debt service on obligations of the Academy, to (ii) the amount of scheduled debt service on all obligations of the Academy other than state aid notes in such period.

### **REQUIRED DEBT SERVICE COVERAGE COVENANT**

The Academy in the Lease Financing Agreement will covenant that, except to the extent the following requirement may be waived in writing by the Trustee, if the Debt Service Coverage Ratio (as defined in paragraph (c) above) in the period of 12 consecutive months ending on the final day of any fiscal quarter of the Academy is less than 1.40, the Academy (i) will obtain from its then currently employed management company, or, if none, will immediately employ Innovative Teaching Solutions, Inc. (or another qualified management company) to make, written recommendations to the Academy, not less than 60 days after the end of such fiscal quarter, on steps to take to achieve such Debt Service Coverage Ratio, and (ii) will, to the full extent permitted by law, follow such written recommendations. Within 60 days after the end of each fiscal quarter of the Academy, the Academy shall file with the Trustee a certificate of an authorized officer of the Academy certifying whether and how the Academy is in compliance with the above provisions. As long as the Academy complies with the foregoing requirements, even if the described ratio is less than 1.40, that will not constitute a default under the Lease Financing Agreement.

### **ACADEMY INFORMATION REPORTING REQUIREMENTS**

In addition to providing audited financial statements (See "CONTINUING DISCLOSURE" below and EXHIBIT G - FORM OF CONTINUING DISCLOSURE AGREEMENT" herein), the Academy agrees to file directly with the Trustee: (a) as soon as available and in any event within 45 days after the end of each fiscal quarter (except within 90 days after the end of each fourth fiscal quarter), a copy of the unaudited year-to-date financial and budget reports of the Academy for the fiscal period then ended, including budgeted and actual data on student enrollment, revenues and expenses for such period; (b) as soon as available and in any event within 90 days after the end of each fiscal year, an end-of-year report on the operations of the Academy during such year; and (c) within 60 days after the end of each fiscal quarter of the Academy, a certificate of its authorized officer of the Academy (i) setting forth its Debt Service Coverage Ratio for the period of 12 consecutive months ending on the final day of such quarter, and (ii) only if such ratio is less than 1.40, (A) naming the management company engaged to provide recommendations consequent thereon, and (B) reporting on such recommendations and the status and results of the Academy's compliance therewith.

### **RISK FACTORS**

This Official Statement contains summaries of pertinent portions of the Bonds and the Indenture. Such summaries and references are qualified in their entirety by reference to the full text of such documents. The following discussion of some of the risk factors associated with the Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

#### **Speculative Investment**

Purchase of the Bonds involves a high degree of risk and the Bonds are a speculative investment. The Bonds are rated within the "BBB-" major rating category by Standard and Poor's Ratings Services ("S&P"). See "RATING", below. Although any explanation of the significance of the rating may be obtained only from S&P, bonds that are below that category are typically high-yield, high-risk securities, commonly known as "junk bonds."

### **Sufficiency of Revenues**

The Bonds are secured by and payable solely from revenues of the Academy pledged under the terms and conditions of the Indenture and as otherwise described therein. Based on present circumstances (i.e., its charter contract and operating history), and assuming additional enrollment and capacity after acquisition, construction and renovation of the Project, the Academy believes it will generate sufficient revenues to meet its obligations under the Indenture. However, the Academy's charter may be terminated or not renewed, or the basis of the assumptions utilized by the Academy to formulate this belief may otherwise change and no representation or assurance can be made that the Academy will continue to generate sufficient revenues to meet its obligations.

### **Dependence on State School Aid Payments; State School Aid Payments Subject to Annual Appropriation**

The Academy may not charge tuition and has no taxing Issuer. The primary source of revenue received by the Academy is the per pupil foundation allowance provided by the State for all public schools (including public school academies). The amount of State School Aid received by any individual school (including the Academy) is based upon its per pupil enrollment. The amount of State School Aid available in any year to pay the per pupil allowance is subject to appropriation by the Michigan Legislature. The Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, to enable the Academy to pay debt service on the Bonds and to meet its general operating expenses. Similarly, the State allocation per student could be reduced or not keep pace with expenses such that the aggregate State School Aid Payments to the Academy is inadequate to allow the Academy to pay its operating expenses and debt service on the Bonds. No liability shall accrue to the State in such event, and the State will not be obligated or liable for any future payments or any damages in such event. In the event the State were to withhold the payment of monies from the Academy for any reason, even a reason that is ultimately determined to be invalid or unlawful, it is likely the Academy would be forced to cease operations.

### **Delay in, Reduction, or Termination of State School Aid**

Any event that would cause a delay, reduction or elimination of State School Aid payments would have a material adverse effect on the ability of the Academy to make debt service payments on the Bonds. The Michigan legislature is required to balance the budget and if it does not, the proration provisions of the School Aid Act become effective. The proration provisions essentially roll back the foundation allowance. Section 11 of the School Aid Act states that if appropriations exceed the amount available for expenditure from the School Aid Fund in any given year, then the State must prorate certain payments to school districts in order to eliminate the shortfall. These provisions resulted in a \$127 million school aid shortfall in fiscal year 2003 and an annualized prorated 3.8% across-the-board cut applied to all State spending categories except those specifically protected by law. The effect of this proration was to reduce the Academy's per pupil foundation allowance by \$74, from \$7,000 per student to \$6,926 for fiscal year 2003-04, which was the last year the Academy's per pupil foundation allowance was reduced. No representation can be made that future fiscal periods will not be subject to similar budget shortfalls.

### **Changes in Law**

The School Aid Act is subject to modification by the Michigan Legislature, subject only to certain constitutional parameters. The amount, timing and methodology for calculation of State School Aid has changed significantly in recent years, and is subject to future legislative changes.

Further, the Michigan Legislature has amended the charter school laws since they were first enacted in 1993. Future amendments to the law may adversely affect the Academy, for example, by reducing the maximum amount payable by the State for students enrolled by the Academy, by limiting the amount of such State School Aid payments that may be pledged to obligations such as the Bonds, by withholding a percentage of the State School Aid payments if a charter school is deemed not to be in compliance with its charter or state and federal laws, by decreasing the maximum length of a charter contract's term, by requiring a state body to make an assessment of each school's effectiveness every year, by limiting the number of students for which State funds are available, by mandating new facilities or programs which may cost more than has been projected, by revising the relative responsibilities between school districts and the State for financing schools (including charter schools) or by eliminating the Issuer for charter schools.

### **Economic and Other Factors**

Future economic and other factors may adversely affect the Academy's revenues and expenses and, consequently, the Academy's ability to make debt service payments under the Indenture. Among the factors that could have such adverse effects are: decreases in the number of students seeking to attend the Academy at optimum levels for each grade level; the ability of the Academy to provide the education desired and accepted by the population served; economic developments in the affected service area; diminution of the Academy's reputation in its field; competition from other educational institutions, including other charter schools, private schools and public schools; lessened ability of the Academy to attract and retain qualified teachers and staff at salaries that permit payment of debt service and expenses; increased costs associated with technological advances; changes in government regulation of the education industry or in the Michigan charter school statutes; future claims for accidents at the Academy's sites and the extent of insurance coverage for such claims; decrease in per-student funding amounts by the State; and the occurrence of natural disasters such as floods.

### **Limited Operating History; Reliance on Projections**

The ability of the Academy to make debt service payments when due is dependent on State School Aid payments to be received by the Academy as payment for educating students. The Academy has only conducted operations since 1999. The projections of revenues and expenses contained in "EXHIBIT A – OLD REDFORD ACADEMY – Historical and Projected Revenue and Expenses," herein were prepared by the Academy and have not been independently reviewed or verified by any other party. In particular, the Underwriters have not independently verified such projections, and makes no representations nor gives any assurances that such projections, nor the assumptions underlying them, are complete or correct. Further, the projections relate only to the fiscal years of the Academy ending June 30, 2005 through 2010, and consequently do not cover the entire period that the Bonds will be outstanding.

The projections are derived from the actual operation of the Academy and from the Academy's assumptions about future student enrollment and expenses. There can be no assurance that the actual enrollment revenues and expenses for the Academy will be consistent with the assumptions underlying the projections contained herein. Moreover, no guarantee can be made that the projections of revenues and expenses contained herein will correspond with the results actually achieved in the future because there is no assurance that actual events will correspond with the assumptions made by the Academy. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of insufficient enrollment, reduced State School Aid payments, or otherwise), employee relations, changes in taxes, changes in applicable government regulation, changes in demographic trends, changes in elementary education competition and changes in local or general economic conditions. Refer to "EXHIBIT A – OLD REDFORD ACADEMY," to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE ACADEMY. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED STATE SCHOOL AID PAYMENTS, OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAXES, CHANGES IN APPLICABLE GOVERNMENTAL REGULATION, CHANGES IN DEMOGRAPHIC TRENDS, CHANGES IN ELEMENTARY AND SECONDARY EDUCATION COMPETITION AND LOCAL OR GENERAL ECONOMIC CONDITIONS.

### **Completion of the Project**

Proceeds of the Bonds will be used to finance various projects under the Lease Financing Agreement. If plans regarding the Project result in a construction cost that exceeds the amount available to pay such costs, such plans will have to be modified by the Academy to lower the construction costs to an amount not exceeding the amount deposited into the Revenue fund for that purpose or the Academy will have to provide additional funding. No assurance can be given that the project will be acquired, constructed or modified on time or for the amount deposited into the Revenue fund for such purpose.

### **Damage or Destruction of the Project**

The Indenture requires that the Academy's property be insured against certain risks in certain amounts. There can be no assurance that the amount of insurance required to be obtained will be adequate or that the cause of any damage or destruction will be as a result of a risk. Further, there can be no assurance of the creditworthiness of the insurance companies from which the Academy will obtain the required insurance policies.

### **Determination of Taxability**

If a Determination of Taxability (as defined in the Indenture) were to occur, the Bonds would be subject to mandatory redemption, as a whole and not in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date, on the earliest practicable date for which notice can be given following such determination.

### **Factors Associated with the Academy's Operations**

There are a number of factors affecting schools in general that could have an adverse effect on the Academy's financial position and ability to make the debt service payments required under the Indenture. These factors include, but are not limited to, increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodation of persons with disabilities; any unionization of the Academy's workforce with consequent impact on wage scales and operating costs of the Academy; the ability to attract a sufficient number of students; changes in existing statutes pertaining to the powers of the Academy and disruption of the Academy's operations by real or perceived threats against the school, its employees or students. The Academy cannot assess or predict the ultimate effect of these factors on its operations or financial results of its operations or on its ability to make debt service payments with respect to the Bonds.

### **Potential Effects of Bankruptcy**

If the Academy were to file a petition for relief (or if a petition were filed against such entity as debtor) under the United States Bankruptcy Code, 11 U.S.C. §§ 101 et. seq., as amended, or other state insolvency, liquidation or receivership laws, the filing could operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Academy or the property of the Academy. If the bankruptcy court or other state or federal court so ordered, the Academy's property and revenues could be used for the benefit of the Academy despite the claims of its creditors (including the owners of the Bonds).

In a bankruptcy proceeding under Chapter 11 of the Bankruptcy Code, the Academy could file a plan of reorganization which would modify the rights of creditors generally or the rights of any class of creditors, secured or unsecured (including the owners of the Bonds). The plan, when approved ("confirmed") by the bankruptcy court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the Academy except as otherwise provided for in the plan. No plan may be confirmed by a bankruptcy court unless, among other conditions, the plan is in the best interest of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly. The Academy is prohibited from creating secured creditors except as provided in the Indenture.

### **Value of Property May Fluctuate**

The value of the Project at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in the transaction. Real property values can fluctuate substantially depending in large part on the state of the economy. There is nothing associated with the Academy's property which would suggest that its value would remain stable or would increase if the general values of property in the community were to decline. The Facilities (including the existing land and school building to be purchased) was appraised by The Oetzel-Hartman Group who estimated the market value of the Facilities to be \$1,050,000 in its report dated November 28, 2005.

### **Special Purpose Buildings**

The Project subject to the lien of the Mortgage is not a general purpose building and may not be suitable for industrial or commercial use. If it were necessary to foreclose a judgment lien on the Project under "forced sale conditions" that are present in a foreclosure, it may be difficult to find a purchaser willing to buy, or the property may provide less than full value to the Trustee. There can be no assurance that foreclosure sale proceeds will be sufficient to pay the amounts then outstanding on the Bonds.

### **Competition for Students**

The Academy competes for students with other public school academies, public schools, and private schools. There can be no assurance that the Academy will attract and retain the number of students that are needed to produce the pledged revenues that are necessary to pay the debt service on the Bonds. Several public school academies, public schools and private schools are located in close proximity to the Academy. Refer to "EXHIBIT A – OLD REDFORD ACADEMY – Service Area and Competing Schools," for information regarding other schools in the Academy's service area and schools that compete with the Academy.

### **Key Management**

The creation of, and the philosophy of teaching in, public school academies such as the Academy initially may reflect the vision and commitment of a few key persons who are on the Board of Directors and/or who make up the upper management of the Academy ("Key Directors/Managers"). Loss of such Key Directors/Managers could adversely affect the Academy's operations or financial results. It is anticipated that over time that public school academies will become less dependent upon the Key Directors/Managers. However, there can be no assurance that this will occur.

### **Revocation or Non-Renewal of Charter**

The Academy operates under a charter contract with the Central Michigan University Board of Trustees (the "University Board"). The charter contract provides the basis for the Academy to receive State School Aid payments. Unless renewed by the University Board, the Academy's charter contract will expire on June 30, 2009. Decisions to renew or not to renew the charter are at the sole discretion of the University Board. The University Board could choose not to renew the Academy's charter upon its expiration for any reason. Additionally, the University Board may unilaterally terminate the Academy's charter at any time if the Academy is not in substantial compliance with the charter or any provision of applicable law. The University Board may also revoke or terminate the charter pursuant to its terms based on grounds specified in the charter. See "EXHIBIT A – OLD REDFORD ACADEMY – Charter." The decision not to renew or to revoke a contract is in the discretion of the authorizing body, is final, and is not subject to review by a court or any State agency. In the event that the Academy's charter is revoked or not renewed, the ability of the Academy to make debt service payments on the Bonds would be adversely affected and the Academy could be forced to cease operations.

Pursuant to Section 18b of the State School Aid Act, in the event that the Academy (i) is ineligible to receive funding under the State School Aid Act for 18 consecutive months; (ii) the Academy's charter is revoked; or (iii) the Academy's charter is not reissued by the Authorizing Body, then property, including title to such property, acquired substantially with funds received from the State pursuant to the State School Aid Act is required to be transferred to the State. The State Treasurer, or his or her designee, is authorized to dispose of property transferred to the State pursuant to Section 18b of the State School Aid Act. Except as otherwise provided in Section 18b of the State School Aid Act, the State Treasurer shall deposit in the state school aid fund any money included in that property and the net proceeds from the sale of the property or interests in the property, after payment by the State Treasurer of a public school academy debt secured by the property or interest in the property.

### **Environmental Regulation**

The Project and surrounding site are subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability to the owner of such Project for investigating and remediating adverse environmental conditions on or relating to the Project, whether arising from preexisting conditions or conditions arising as a result of the activities conducted in connection



with the ownership and operation of the Project. Costs incurred by the Academy with respect to environmental liability could adversely impact its financial condition and its ability to lease and operate its school Facilities.

The Traverse Group, Inc. (the "Traverse Group") performed a Phase I Environmental Site Assessment (the "Phase I Assessment") of the Facilities and surrounding site based upon the Traverse Group's interpretation of and in conformance with the scope and limitations of the current American Society of Testing and Materials ("ASTM") standards for environmental site assessments of commercial real estate E-1527-00. The Phase I Assessment was undertaken to identify areas of potential environmental concern or evidence of chemical contamination within the limits of the Project and site and/or as visually observed immediately adjacent to such property. In its report dated November 22, 2005 (the "Phase I Report"), the Traverse Group stated that the Phase I Assessment revealed no evidence of recognized environmental conditions.

## **TAX MATTERS**

### **Tax-Exempt Bonds**

#### ***General***

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the interest on the Tax-Exempt Bonds (a) is excluded from gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; however, it should be noted that certain corporations must take into account interest on the Tax-Exempt Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax. The opinion set forth in clause (a) above is subject to the condition that the Issuer and the Academy comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Tax-Exempt Bonds in order that interest thereon be (or continue to be) excluded from gross income for federal income tax purposes. Failure to comply with such requirements could cause the interest on the Tax-Exempt Bonds to be included in gross income retroactive to the date of issuance of the Tax-Exempt Bonds. The Academy, on behalf of itself and the Issuer, has covenanted to comply with all such requirements. Bond Counsel and the Attorney General will express no opinion regarding other federal tax consequences arising with respect to the Tax-Exempt Bonds and the interest thereon.

Prospective purchasers of the Tax-Exempt Bonds should be aware that (i) interest on the Tax-Exempt Bonds is included in the effectively connected earnings and profits of certain foreign corporations for purposes of calculating the branch profits tax imposed by Section 884 of the Code, (ii) interest on the Tax-Exempt Bonds may be subject to a tax on excess net passive income of certain S corporations imposed by Section 1375 of the Code, (iii) interest on the Tax-Exempt Bonds is included in the calculation of modified adjusted gross income for purposes of determining taxability of social security or railroad retirement benefits, (iv) the receipt of interest on the Tax-Exempt Bonds by life insurance companies may affect the federal tax liability of such companies, (v) in the case of property and casualty insurance companies, the amount of certain loss deductions otherwise allowed is reduced by a specific percentage of, among other things, interest on the Tax-Exempt Bonds, (vi) registered owners acquiring the Tax-Exempt Bonds subsequent to initial issuance will generally be required to treat market discount recognized under Section 1276 of the Code as ordinary taxable income, (vii) the receipt or accrual of interest on the Tax-Exempt Bonds may cause disallowance of the earned income credit under Section 32 of the Code, and (viii) registered owners of the Tax-Exempt Bonds may not deduct interest on indebtedness incurred or continued to purchased or carry the Tax-Exempt Bonds, and financial institutions may not deduct that portion of their interest expense allocated to interest on the Tax-Exempt Bonds.

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the Tax-Exempt Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

No assurance can be given that any future legislation or clarifications or amendments to the Code, if enacted into law, will not contain proposals that could cause the interest on the Tax-Exempt Bonds to be subject directly or indirectly to federal or State of Michigan income taxation, adversely affect the market price or marketability of the Tax-Exempt Bonds, or otherwise prevent the registered owners from realizing the full current benefit of the status of the interest thereon.

#### ***Tax Treatment of Accruals on Original Issue Discount Tax-Exempt Bonds***

For federal income tax purposes, the difference between the initial offering prices to the public (excluding bond houses and brokers) at which a substantial amount of the Tax-Exempt Bonds maturing on December 1 in the years 2008, 2014, 2015, 2022, and 2030 (the “OID Bonds”) is sold and the amount payable at the stated redemption price at maturity thereof constitutes “original issue discount.” Such discount is treated as interest excluded from federal gross income to the extent properly allocable to each registered owner thereof. The original issue discount accrues over the term to maturity of each such OID Bond on the basis of a constant interest rate compounded at the end of each six-month period (or shorter period from the date of original issue) with straight line interpolations between compounding dates. The amount of original issue discount accruing during each period is added to the adjusted basis of such OID Bonds to determine taxable gain upon disposition (including sale, redemption or payment on maturity) of such bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of registered owners of the OID Bonds who purchase such bonds after the initial offering of a substantial amount thereof. Registered owners who do not purchase such OID Bonds in the initial offering at the initial offering and purchase prices should consult their own tax advisors with respect to the tax consequences of ownership of such bonds.

All registered owners of the OID Bonds should consult their own tax advisors with respect to computation of original issue discount and the allowance of a deduction for any loss on a sale or other disposition to the extent that such loss is attributable to accrued original issue discount.

#### ***Amortizable Bond Premium***

For federal income tax purposes, the difference between an original registered owner’s cost basis of the Tax-Exempt Bonds maturing on December 1, 2013 (the “Original Premium Bonds”) and the amounts payable on the Original Premium Bonds other than stated interest constitutes an amortizable bond premium. The same applies with respect to any Tax-Exempt Bond, if a registered owner’s cost basis exceeds the amounts payable thereon other than stated interest (collectively with the Original Premium Bonds held by the original registered owners, “Premium Bonds”). Such amortizable bond premium is not deductible from gross income, but is taken into account by certain corporations in determining adjusted current earnings for the purpose of computing the alternative minimum tax, which may also affect liability for the branch profits tax imposed by Section 884 of the Code. The amount of amortizable bond premium allocable to each taxable year is generally determined on the basis of the registered owner’s yield to maturity determined by using the registered owner’s basis (for purposes of determining loss on sale or exchange) of such Premium Bonds and compounding at the close of each six-month accrual period. The amount of amortizable bond premium allocable to each taxable year is deducted from the registered owner’s adjusted basis of such Premium Bonds to determine taxable gain upon disposition (including sale, redemption or payment at maturity) of such bonds.

#### **Taxable Bonds**

##### ***Not Exempt from Federal Tax***

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, interest on the Taxable Bonds is **included** in gross income for federal income tax purposes. Bond Counsel and the Attorney General will express no opinion regarding other federal tax consequences arising with respect to the Taxable Bonds and the interest thereon.

### ***Exempt from State Tax***

In the opinion of the Attorney General of the State of Michigan and in the opinion of Dickinson Wright PLLC, Bond Counsel, based on their examination of the documents described in their opinions, under existing law, the Taxable Bonds and the interest thereon are exempt from all taxation of the State of Michigan or a subdivision thereof, except estate taxes and taxes on gains realized from the sale, payment or other disposition thereof.

### ***Certain Federal Tax Consequences***

There are certain additional federal income tax consequences of the purchase, ownership and disposition of the Taxable Bonds. Such federal income tax consequences include, but are not limited to, matters related to acquisition premium, amortizable bond premium, gain or loss on disposition, market discount, information reporting and backup withholding.

INVESTORS SHOULD CONSULT WITH THEIR TAX ADVISORS AS TO THE TAX CONSEQUENCES OF THEIR ACQUISITION, HOLDING OR DISPOSITION OF THE TAX-EXEMPT BONDS AND THE TAXABLE BONDS AND THE TAX CONSEQUENCES OF THE ORIGINAL ISSUE DISCOUNT OR PREMIUM THEREON, IF ANY.

### **APPROVAL OF LEGAL PROCEEDINGS**

Legal matters incident to the authorization, issuance and sale by the Issuer of the Bonds will be passed upon by Bond Counsel and the Attorney General of the State of Michigan. Copies of the approving opinion of Bond Counsel and of the Attorney General will be available at the time of the delivery of the Bonds. Certain legal matters will be passed upon for the Academy by Collins and Blaha P.C., Southfield, Michigan, and by Clark Hill PLC in its capacity as counsel to the Underwriters.

### **UNDERWRITING**

The Bonds are being purchased by the Underwriters pursuant to a purchase contract at prices which, if the Bonds are sold at the prices and yields shown on the inside cover page, will result in Underwriters' compensation of \$222,200.00. The obligation of the Underwriters to accept delivery of the Bonds is subject to various conditions contained in the purchase contract. The purchase contract provides that the Underwriters will purchase all of the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers, banks and others at prices lower than the initial offering prices, and such initial offering prices may be changed from time to time by the Underwriters. Neither the Attorney General nor Dickinson Wright PLLC will express any opinion concerning the investment quality of the Bonds, or the accuracy, completeness or sufficiency of any offering material relative to the Bonds.

### **LITIGATION**

As of the date hereof, there is no litigation of any nature pending or threatened against the Academy or the Foundation to restrain or enjoin the issuance, sale, execution, or delivery of the Bonds or the application of the proceeds thereof toward the costs of the Project, or in any way contesting or affecting the validity of the Bonds or any proceedings of the Academy or the Foundation taken with respect to the issuance or sale thereof, or the pledge or application of any monies or security for the Bonds or the existence or powers of the Academy or the Foundation.

There is no litigation pending or, to the knowledge of the Academy or the Foundation, threatened against the Academy or the Foundation, wherein an unfavorable decision would adversely affect the ability of the Academy or the Foundation to carry out its obligations under the Lease Financing Agreement or the Indenture or would have a material adverse impact on the financial position of the Academy or the Foundation.

## **CONTINUING DISCLOSURE**

The Academy will execute and deliver a Continuing Disclosure Agreement (the "Continuing Disclosure Agreement"), with respect to the Bonds. The Continuing Disclosure Agreement is made for the benefit of the registered and Beneficial Owners (as defined in the Continuing Disclosure Agreement) of the Bonds and in order to assist the Underwriters in complying with its obligations pursuant to Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Continuing Disclosure Rule"). See "EXHIBIT G – FORM OF CONTINUING DISCLOSURE AGREEMENT."

Pursuant to the Continuing Disclosure Agreement, the Academy will agree to provide, or cause to be provided, annually to designated information repositories certain quantitative financial information and operating data of the type specified in the Continuing Disclosure Agreement (the "Annual Report"); and to provide in a timely manner to designated information repositories notice of the occurrence of certain events, if material (within the meaning of the Continuing Disclosure Rule), and of any failure to provide the Annual Report when due. The Continuing Disclosure Agreement does not require that information be provided to registered owners or Beneficial Owners of the Bonds, but rather requires only that such information be provided to certain information repositories.

## **BONDS NOT A DEBT OF STATE**

The Bonds will not constitute or create any debt or debts, liability or liabilities on behalf of the State or any political subdivision thereof, other than a limited obligation of the Issuer, nor a loan of the credit of the State or a pledge of the faith and credit of the State or of any such political subdivision, but will be payable solely from the funds provided therefor. The issuance of Bonds under the Indenture will not directly, indirectly or contingently obligate the State of Michigan, the Issuer, or any political subdivision thereof to levy or to pledge any form of taxation whatever therefor, or to make any appropriation for their payment. The Issuer has no taxing power.

## **LEGALITY FOR INVESTMENT**

Subject to any applicable federal requirements or limitations, the Bonds, in the State of Michigan, are securities in which all insurance companies, banks, trust companies, savings banks and savings associations, savings and loan associations, investment companies, all administrators, guardians, executors, trustees and other fiduciaries, and all other persons whatsoever who are authorized to invest in bonds or other obligations of the State, may properly and legally invest funds, including capital, in their control or belonging to them.

## **RATING**

The Bonds have been assigned a rating of "BBB-" by Standard and Poor's Rating Services ("S&P"). Such rating reflects only the views of S&P, at the time such rating was given, and the Issuer makes no representation as to the appropriateness of the rating. Any explanation of the significance of the rating may be obtained only from S&P. The Academy furnished to S&P information and materials relating to the Bonds and itself, certain of which information and materials have not been included herein. Generally, rating agencies base their ratings on such information and materials and on investigations, studies and assumptions by the rating agencies. There is no assurance that the rating will continue for any given period of time or that it will not be revised downward or withdrawn. Revision, qualification or withdrawal of the rating can be expected to have an adverse affect on the market price of the Bonds.

## **FINANCIAL STATEMENTS**

The financial statements of the Academy, as of and for the year ended June 30, 2005, included in this Official Statement have been audited by Taylor and Morgan, CPA, independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of Taylor and Morgan, CPA, which has not been asked to undertake any additional review in connection with the preparation of this Official Statement. The Academy is not aware of any facts that would make the audited financial statements misleading.

## MISCELLANEOUS

The Bonds are intended to be exempt securities under the Securities Act of 1933, as amended (the “1933 Act”), and the offer, sale and delivery of the Bonds does not require registration under the 1933 Act or qualification of the Indenture under the Trust Indenture Act of 1939. The Academy has agreed that, during the course of the transaction and prior to the sale of the Bonds, potential investors may ask questions of and receive answers from its representatives concerning the terms and conditions of the offering and that potential investors may obtain from it any additional information necessary to verify the accuracy of the information furnished, in each case to the extent it possesses such information or can acquire it without unreasonable effort or expense. Any request for information may be directed to the Underwriters.

The Academy has furnished the information herein relating to itself. The Issuer has furnished the information herein relating to itself. The Underwriters have furnished the information in this Official Statement with respect to the offering prices of the Bonds and the information under the caption “UNDERWRITING.”

All quotations from, and summaries and explanations of, the Indenture and other documents referred to herein do not purport to be complete, and reference is made to said documents for full and complete statements of their provisions. All references herein to the Bonds are qualified by the definitive forms thereof and the information with respect thereto contained in the Indenture. This Official Statement shall not be construed as constituting an agreement with purchasers of the Bonds. The cover page, introductory statement and the attached Exhibits are part of this Official Statement. All information contained in this Official Statement, including the Exhibits, is subject to change and/or correction without notice and neither the delivery of this Official Statement nor any sale made hereunder creates any implication that the information contained herein is complete or accurate in its entirety as of any date after the date hereof.

ANY STATEMENTS MADE IN THIS OFFICIAL STATEMENT INVOLVING MATTERS OF OPINION OR ASSUMPTIONS OR ESTIMATES, WHETHER OR NOT SO EXPRESSLY STATED, ARE SET FORTH AS SUCH AND NOT AS REPRESENTATIONS OF FACT AND NO REPRESENTATION IS MADE THAT ANY OF THE ESTIMATES OR ASSUMPTIONS WILL BE REALIZED.

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<sup>1</sup>  
**EXHIBIT A**

**OLD REDFORD ACADEMY**

**GENERAL**

Old Redford Academy (the “Academy”) is a public school academy operating as a Michigan non-profit corporation and a governmental agency of the State of Michigan, organized pursuant to Part 6A of Act No. 451 of the Public Acts of 1976, Michigan Compiled Laws (“M.C.L.”) Section 380.501 et. seq. (the “Revised School Code”) and the Michigan Nonprofit Corporation Act, Act No. 162 of the Public Acts of 1982, M.C.L. Section 450.2101 et. seq.

The Academy was founded by Melvin Smith in 1999 and currently serves grades K through 12. The Academy is located in Detroit, Wayne County, Michigan. The Academy operates under a charter contract (the “Charter”) with Central Michigan University (“CMU”) its authorizing body. After three years, the Academy requested and received an early reauthorization of its Charter which extended its Charter for a 7 year term ending June 30, 2009. Since its opening in September of 1999, the Academy’s enrollment has grown from 270 students to 1,250 students for the 2005-2006 school year.

Public school academies are considered local school districts for the purposes of state and federal funding, and are subject to the leadership and general supervision of the State Board of Education. The establishment and organization of public school academies is governed by statute, specifically Part 6A of the Revised School Code. Public school academies provide competition for traditional public schools. Public school academies are organized and administered under the direction of a board of directors, and must be granted a contract governing their establishment and operation by an authorizing body identified by the state, including any state university, community college, intermediate school district, or local school district. Public school academies provide parents and students with an educational choice because public school academies are not limited geographically in the way traditional school district schools are; hence public school academy students may reside anywhere within the State. Public school academies were created to encourage innovative teaching solutions and management structure. Because they are public schools, academies are not allowed to charge tuition for providing educational services and may not discriminate in pupil admission on any basis. One key difference between public school and public school academies is that public school academies may identify a maximum enrollment number. If an academy receives more applications than seats available, by law, the academy must hold a lottery for enrollment.

**MISSION STATEMENT**

The mission of the Academy is to educate students in a clean and safe environment, incorporating a Liberal Arts program. The curriculum represents an interdisciplinary concept to include the four core content areas of language arts, math, science and social studies. The fine arts, foreign language, computer technology, music and health/physical education are included to enhance the educational program.

<sup>1</sup> Information included in Exhibit A of this Official Statement was obtained from the Academy unless otherwise noted.

## **PHILOSOPHY**

The Academy's philosophy of education is to educate the "whole child". The instructional program will meet the needs of the "whole child's" intellectual, physical, social, emotional and psychological aspects of life.

Parents are expected to be committed to the Academy's philosophy and goals by becoming involved in such activities as class participation, at-home activities, and student mentoring. It is important to the Academy that parents have a voice in their child's education as well as means to "actively" participate in the education process. Development of the "whole child" requires education to be an extension of family and community. It is the responsibility of the Academy to assist parents in their role as primary educators. The Academy promotes a supportive partnership where both school and the family mutually respect each other as valued players in a quality education.

The construction and implementation of the curriculum, governance of the school, and overall management of the Academy embraces the individual student's power and responsibility. Wherever possible, students are encouraged to participate in skill building activities and to take an active role in achieving their success. Cooperative as opposed to competitive operating frameworks are a high priority in the design and implementation phases. Skills for the development of a strong and positive self-image, pedagogical techniques for reinforcing that image, empowerment both in spirit and in life's domain underlie curriculum and social environmental planning.

The students, the teachers, and parents negotiate individual pupil profiles developed for each child. Students are placed in structural classrooms to receive in depth instruction. Students remain in selected classes for as long as needed until they have mastered the content and can successfully progress to their next level.

In addition to traditional classroom teaching, the Academy provides an Enrichment Program. The Enrichment Program is designed to "enrich" the "whole child" and provide positive alternatives to negative peer pressure. The student are offered the opportunity to take private piano lessons, individualized tutoring and other enhancement classes. The enrichment program is limited to students that are enrolled at the Academy. The Academy provides a nutritional hot lunch program that is prepared on-site daily.

## **FACILITIES**

The Academy serves grades K through 12, and operates from three leased locations. Grades K through 5<sup>th</sup> currently operates in two buildings and seven modular classrooms. The original elementary site is a 15,750 square-foot school facility located at 17195 Redford Street, Detroit, Michigan. It contains seven classrooms, four restrooms, office space, one gymnasium/cafeteria and administrative office space. Surrounding part of this building are six modular classroom units (two of them double units) that contain several classrooms and restrooms. Another modular unit is used for office space. This site includes adjacent parking lots, driveways, common areas, and a garage.

The second elementary site is housed in the lower level of Redford Presbyterian Church, located at 17226 Redford Street, Detroit, Michigan. The total square footage is 5,565. There are three classrooms, one resource room, an office, two restrooms, as well as common areas and a parking lot. This building (also known as 22122 W. McNichols Rd.) was added in the fall of 2002 and is located across the street from the original school building.

The middle school serving grades 6 through 8, operates from an 18,000 square-foot building located at 7000 West Outer Drive, Detroit, Michigan. This facility contains fifteen classrooms, several restrooms, an office, gymnasium, locker rooms, and a kitchen. The site also includes two modular classroom buildings containing six of the fifteen classrooms.

The high school, Old Redford Preparatory High School, serves grades 9 through 12 and operates from an 80,000 square-foot building located at 8001 West Outer Drive, Detroit, Michigan. This facility contains twenty-six classrooms, several restrooms, offices, a field house and a football field.



## **CURRICULUM**

The Academy has adopted the Kent County Curriculum which is aligned to the Michigan Curriculum Framework. The Academy begins the rigorous curriculum upon entry into the elementary school in Kindergarten. The Academy sets high academic expectations for students in accordance with No Child Left Behind “NCLB”. The grade level content expectations are embedded in the curriculum and instructional strategies used daily. The Academy utilizes technology, team teaching, and encourages the practice of cooperative learning environments to extend learning opportunities from teacher to students to peer to peer. The Academy recognizes the importance of extending the content and learning expectation to real life situations and utilizes educational field trips that support student learning outcomes. Through standards based assessment tests (“Performance Series”), the Academy is able to meet individual student needs at their skill level.

The Academy recognizes the importance of education and its relationship to sustaining life long successes and has established academic expectations as students prepare for high school. The Academy’s Preparatory High School requires that students take 24 credits of course instruction which includes instruction in challenging courses such as Physics and Pre Calculus. The Academy’s elementary, middle, and high school programs are pursuing accreditation through North Central Association Commission on Accreditation and School Improvement.

## **EXTRACURRICULAR ACTIVITIES**

The Academy provides various extracurricular activities to engage student strengths and interests. The elementary school offers cheer clinic, dance, girl and boy scouts, journalism/yearbook, choir and basketball. The middle school offers academic games, robotics, sister to sister mentoring, brother to brother mentoring, cheerleading, girls and boy’s basketball, and choir. The high school offers girls and boys basketball, football, Glee Club, yearbook, foreign language club, and cheerleading.

## **PROJECT**

The Lease Financing Agreement will finance the costs of (a) the acquisition of land and an existing approximately 20,000 square foot school building, (b) the partial demolition of the existing school building, (c) the construction of approximately 54,000 square feet of new space in replacement thereof and in addition thereto; and (d) the renovation, furnishing and equipping thereof, all to be located at 17195 Redford, City of Detroit, Wayne County, Michigan 48219 (the Elementary School Site) and occupied by the Academy for use as a public school academy (collectively, the “Project”). The facility will be owned by the Clothilde R. Smith Charitable Foundation, a Michigan non-profit corporation (the “Foundation”) and leased to the Academy. This project will allow the consolidation of the elementary school sites into one school building.

## **CHARTER**

To obtain its Charter, the Academy had to meet the requirements of Michigan’s charter school laws, which required the Academy to file a written application with CMU requesting the Academy be established and to negotiate the Charter with CMU. CMU is responsible for overseeing the Academy and assisting the Academy in complying with its Charter and other applicable state and federal laws. CMU receives 3% of the Academy’s state aid funds for providing such oversight.

Under the terms and conditions of the Charter, the Charter may be revoked by the CMU Board of Trustees (the “CMU Board”) upon a determination by the CMU Board that one or more of the following statutory grounds for revocation has occurred:

- a) Failure of the Academy to abide by and meet the educational goals set forth in the Charter; or
- b) Failure of the Academy to comply with all state and federal law applicable to public school academies (“Applicable Law”); or

- c) Failure of the Academy to meet generally accepted public sector accounting principles.

In addition to the statutory grounds for revocation set forth above, the CMU Board may also revoke the Charter, pursuant to procedures set forth in the Charter, upon a determination by the CMU Board that one or more of the following has occurred:

- a) The Academy is insolvent, has been adjudged bankrupt, or has operated for two or more school fiscal years with a fund balance deficit;
- b) The Academy has insufficient enrollment to successfully operate a public school academy, or the Academy has lost more than 50% of its student enrollment from the previous school year;
- c) The Academy defaults in any of the terms, conditions, promises or representations contained in or incorporated into the Charter;
- d) The Academy files amendments to its Articles of Incorporation with the Michigan Department of Labor and Economic Growth, Bureau of Commercial Services without first obtaining CMU Charter School Office approval;
- e) The CMU Charter Schools Office Director discovers grossly negligent, fraudulent or criminal conduct by the Academy's applicant(s), directors, officers, employees or agents in relation to their performance under the Contract; or
- f) The Academy's applicant(s), directors, officers, employees or agents have provided false or misleading information or documentation to the CMU Charter School Office in connection with the CMU Board's approval of the Charter application, the issuance of the Charter, or the Academy's reporting requirements under the Charter or applicable law.

The Charter also provides that CMU may immediately suspend the Charter, pending completion of procedures set forth in the Charter pertaining to revocation of the Charter, if the CMU Charter School Office Director determines that probable cause exists to believe that the Academy:

- a) Has placed staff or students at risk;
- b) Is not properly exercising its fiduciary obligations to protect and preserve the Academy's public funds and property;
- c) Has lost its right to occupancy of the physical facility for the Academy and cannot find another suitable physical facility for the Academy prior to the expiration or termination of its right to occupy its existing physical facilities;
- d) Has failed to secure or lost the necessary fire, health and safety approvals as required by the Charter;
- e) Has willfully or intentionally violated the Charter or Applicable Law; or
- f) Has violated the requirements described in (e) and (f) of the section immediately above (regarding revocation).

The Charter provides procedures pursuant to which the Charter may be revoked by the CMU Board. Those procedures require the CMU Charter School Office to issue a notice of intent to revoke notifying the Academy of CMU Charter School Office's reasonable belief of grounds for revocation. The Academy's Board has 30 days to respond in writing, and must include a plan for correcting any admitted non-compliance. Within 15 days of receipt of the Academy's response, CMU Charter School Office formulates its own plan of correction, and in so doing may adopt, modify or reject some or all of the plan proposed in the Academy's response. The revocation proceedings are

closed if (i) the Academy Board's denial of non-compliance is persuasive, (ii) the non-compliance has been corrected by the Board, or (iii) the Academy has successfully completed the plan of correction. CMU Charter School Office Director may initiate a revocation hearing before CMU Charter Schools Hearing Panel ("Hearing Panel") if none of these conditions are met, or if CMU Charter School Office determines that a plan of correction cannot be formulated, or if the Academy has been issued multiple or repeated notices of intent to revoke. The Hearing Panel convenes within 30 days after the hearing and makes a recommendation concerning revocation which is submitted to the CMU Board. The CMU Board may approve, reject or modify all or any part of the Hearing Panel's recommendation. If the CMU Board votes to revoke the Charter, the revocation may be immediately effective, and there is no appeal process provided. The CMU Charter School Office Director may also immediately suspend the Charter (upon a determination that one of the grounds set forth above exists) pending completion of the revocation procedures described above.

## **BOARD OF DIRECTORS**

The Academy is a Michigan non-profit corporation operating in accordance with its Articles of Incorporation, Bylaws, and the Charter. Pursuant to state law, CMU is responsible for overseeing the Academy's operations. The CMU Board appointed the Academy's initial Board of Directors upon entering the Charter contract with the Academy, based on a recommendation by the CMU Charter Schools Office Director after the Director's review of the Academy's application materials. Subsequent members are nominated by the Academy's Board of Directors, which is required to recommend at least one nominee for each vacancy and appointed by the CMU Board. Individuals appointed to fill vacancies are appointed for the unexpired term of the vacant position which they assume.

The Academy is governed by a five-member Board of Directors which is responsible for making policy and business decisions related to school operations. Board members serve four-year terms. The Board's officers consist of a President, Vice President, Secretary and Treasurer. The Board holds an annual meeting, regular monthly meetings and special meetings which may be called at the request of any member of the Board. Brief biographical information pertaining to current Board members is provided below.

### **Sam Williams - President**

Sam Williams currently serves as President of the Board and has served on the Board since October, 1999. Mr. Williams is an Engineer at Ford Motor Company and is a licensed Realtor and Residential Builder. His civic and community involvement includes serving as Vice Chairman of New Hope Missionary Baptist Church. Mr. William's term with the Board expires May, 2007.

### **R. Bernard Lee - Vice President**

Robert Bernard Lee currently serves as Vice President of the Board. He has served in that position since January, 2003. Mr. Lee is currently employed by Wesco Distribution Inc., where he works as a Sales Manager. Mr. Lee has over twenty- three years of sales experiences in the electrical distribution industry. Mr. Lee's credits include several awards such as most Improved Salesman in the North Central Region in 1984. Mr. Lee coaches AAU basketball and is a Trustee at New Hope Missionary Baptist Church. Mr. Lee's term expires May, 2008.

### **Patricia Moncrease - Secretary**

Mrs. Moncrease serves as the Board Secretary. She formerly served as Manager of the Human Resource Department at Blue Cross Blue Shield. Mrs. Moncrease is very active in the civic community and is a Trustee at the New Hope Missionary Baptist Church. Mrs. Moncrease's term with the Board expires May, 2008.

### **Hill G. Crawford - Treasurer**

Mr. Crawford currently serves as Treasurer of the Board. He has been a board member since December, 2003. Mr. Crawford has worked as a System Programmer/Consultant for over fifteen years. Mr. Crawford is currently employed by a health insurance provider as a System Programmer. His term with the Board expires May, 2007.

### **Victolyn Flemmings – Member**

Mrs. Flemmings has been a member of the Board since July, 2005. Mrs. Flemmings is a Registered Nurse and has over twenty-two years of operating room experience. Mrs. Flemming's term with the Board expires May, 2006.

### **ADMINISTRATORS**

The Director of Instruction and the building administrators are solely responsible educational program of the Academy. Listed below are key administrators of the Academy, along with brief biographical administration pertaining to each.

#### **Cherida D. Gary - Director of Instruction**

Cherida D. Gary has been employed by the Academy since 2001. Mrs. Gary has a Master of Education in Educational Leadership. She has served students, parents, and school as a teacher, Elementary Building Administrator, and is presently Director of Instruction.

#### **Tiffany Crayton - Elementary Building Administrator**

Tiffany Crayton has been employed by the Academy since 2001. Mrs. Crayton is actively pursuing her Master's degree in Educational Leadership. She has served students, parents, and the education system for ten years. She is presently the Elementary Building Administrator.

#### **Rosalind Brathwaite - Middle School Building Administrator**

Rosalind Brathwaite has been employed by the Academy since 2004. She has a Master of Education in Education Administration and Supervision. Her experiences in education have extended over the last seven years from the classroom, to lead teacher, Dean of Students, and is presently the Middle School Building Administrator.

#### **Rachel Grandison - High School Building Administrator**

Rachel Grandison began her employment with the Academy in 2005. She has a Master of Education in Administration. She has been an educator for six years and is pursuing a doctoral degree in Educational Leadership. She is serving the needs of students, parents, and staff as the High School Building Administrator.

### **SERVICE PROVIDER**

The Academy has entered into a Management Agreement with Innovative Teaching Solutions, Inc. ("ITS") pursuant to which ITS manages the affairs of and provides educational services to the Academy. ITS has served as the educational service provider to the Academy since the Academy's inception. The Academy and ITS renewed the current service contract on August 12, 2004, and the term of the contract is five years. ITS is a private management company committed to the creation and operation of a small network of high quality public charter schools designed to meet the needs of urban children.

ITS has assembled a group of highly talented, dedicated professionals, experienced in the operation of urban education facilities that are capable of providing all services associated with the operation of a charter school. The primary motivation of these individuals is to provide quality education to the children of metropolitan Detroit.

ITS and the Academy are committed to maintaining a moderate student body which allows for a more personalized attention to nurture students, intellectually, socially, physically, and ethically, in a safe and clean environment.

ITS believes that the purpose of education is to equip one, by skills and knowledge, to deal with reality. Many educators and social service providers have learned to recognize that the "child's problem" is most often a symptom of

the failing effectiveness and integrity of the family. ITS's program is managed by empowered educators and on-site care providers who have flexibility to allow for creative and innovative instruction and planning. Teachers, parents, and professional care providers implement individual student profiles that identify the student's needs, goals, and responsibilities. This allows the Academy to develop a viable educational alternative to traditional urban public educational facilities.

## **SUMMARY OF MANAGEMENT AGREEMENT**

The following is a brief summary of certain provisions of the Management Agreement ("Agreement") between the Academy and ITS. The following summary is not intended to be definitive, and is not a complete examination of all of the provisions of the Agreement. Reference should be made to the Agreement, which is available from the Underwriter, for a complete recital of its terms.

### **Agreement to Operate: Terms of the Agreement**

Pursuant to the terms of the Agreement, ITS has agreed to operate, maintain and manage the Academy and to provide all materials and personnel necessary for operation, maintenance and management of the school, and to provide educational services for the students enrolled at the Academy. Under the terms of the management agreement, ITS is paid an annual management fee equal to 11% of the Academy's revenue, subject to the management fee maximum and minimum provided in the Agreement.

The term of the Agreement is for the period commencing August 12, 2004 and ending August 11, 2009, unless terminated earlier pursuant to the terms of the Agreement.

### **Service Provided by ITS**

Under the terms of the Agreement, ITS is required to provide the following business and administrative support services, which services are to be provided by independent contractors or employees of ITS at the sole discretion of ITS, unless the Academy's Board of Directors requires otherwise: (a) teacher services and support personnel; (b) bookkeeping, accounting and business services; (c) fiscal compliance services; (d) accounts payable and payroll services; (e) salary, wages and benefits administration services; (f) personnel/records management; and (g) purchasing, facilities and maintenance services. ITS may, at the option of the Academy's Board of Directors, provide additional services to the Academy, including curriculum development, program development and technology development.

ITS employs sixty five instructional staff, five teacher's aides, two professional support staff, a social worker, and a speech and language pathologist. ITS contracts services for special education administration, psychologists, occupational therapist, and physical therapist.

## **ENROLLMENT**

The Academy began operations in September of 1999. Between the years of 1999-2003, the Academy operated only at the elementary school campus. During the 2002-2003 school years, a second elementary school was added to accommodate an additional three classrooms. During the following year, the Academy added the middle school location. Finally, during the 2004-2005 school years the Academy expanded to include a high school serving grades 9-12. The following table sets forth data provided by the Academy regarding its historical and projected enrollment.

**TABLE 1: HISTORICAL AND PROJECTED ENROLLMENT**

Grade	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
K-5	350	400	475	399	477	452	535	575	600	635
6-8	N/A	N/A	N/A	251	325	345	360	380	400	410
9-12	N/A	N/A	N/A	N/A	341	453	495	510	530	550
Total	350	400	475	650	1143	1250**	1390**	1465**	1530**	1595**

Source: The Academy; data presented for 2000-01 through 2004-05 is actual data as of the beginning of those school years. Data presented for 2005-06 through 2009-10 is projected by the Academy.

\*\* The Academy's Charter currently limits the Academy's maximum enrollment to 1,300 students. In connection with the school facilities expansion, the Academy has applied to CMU for an increase to accommodate the projected enrollment. The enrollment numbers for school years 2005-06 through 2009-10 are based on year end enrollment numbers not state membership calculation.

The Academy believes that its enrollment performance since 2000-2001 tracks a demand within the student demographic principally served by the Academy for school choices other than those presented by the Detroit Public School District ("DPS").

**TABLE 2: COMPARATIVE ENROLLMENT GROWTH  
DETROIT PUBLIC SCHOOLS AND THE ACADEMY**

Year	DPS	Percentage Increase/Decrease	Academy	Percentage Increase/Decrease
2000-01	119,599		350	
2001-02	115,054	-3.8%	400	14.3%
2002-03	111,001	-3.5%	475	18.8%
2003-04	120,629	8.7%	650	36.8%
2004-05	110,203	-8.6%	1143	75.8%

Source: The Academy, from data made available by the Michigan Department of Education.

**WAIT LIST INFORMATION**

The following table sets forth data provided by the Academy regarding the number of middle and high school students currently on the waiting list for the Academy for the 2005-06 school years. The Academy does not have a waiting list for the elementary school.

**TABLE 3: CURRENT WAITING LIST**

Grade	2004-05	2005-06
6-8	34	194
9-12	50	200

Source: The Academy

**SERVICE AREA AND COMPETING SCHOOLS**

The majority of the Academy's students reside in the City of Detroit (the "City"). The Academy currently serves both the east side and west side of the City.

Because the Academy is located in the City it competes for students mostly with all public schools within the City. There are seven public schools and three charter schools within approximately 5 miles of the Academy, with similar grade offerings as the Academy, which the Academy views as competing with it with respect to enrollment of students:

#### Public Schools:

- Houghton Elementary School, with an enrollment of approximately 437 students in grades K through 5;
- Thomas Edison Elementary, with an enrollment of approximately 354 students in grades K through 5;
- Emerson Middle School, with an enrollment of approximately 1,086 students in grades K through 8;
- Redford High School, with an enrollment of approximately 1,873 students in grades 9 through 12;
- Randolph Vocational School, with an enrollment of approximately 49 students in grades 9 through 12;
- Renaissance High School, with an enrollment of approximately 895 students in grades 9 through 12;
- Henry Ford High School, with an enrollment of approximately 1,769 students in grades 8 through 12;

#### Charter Schools:

- Allen Academy School, with an enrollment of approximately 673 students in grades pre-K through 9;
- Nataki Talibah School House, with an enrollment of approximately 512 students in grades K through 8; and
- YMCA Service Learning Academy, with an enrollment of approximately 1,145 students in grades pre-K through 8.

Due to a legislative “cap” on the number of charter schools that can be authorized by state universities, in the City of Detroit, there is limited charter school competition expected in the near future. Universities have been the most active authorizers. However state universities have in the past offered charters to new applicants from charters that have been relinquished either voluntarily or involuntarily by existing schools, and hence there be no assurance that such a charter would not be granted in the future to a public school academy that may compete with the Academy.

Regarding community college authorizers, in the past 3 years, Bay Mills Community College (“BMCC”) has been the most active authorizer in the State. BMCC is restricted from authorizing schools within the DPS boundaries but may provide authorization in nearby cities.

Other community colleges and intermediate and local public school districts may also authorize charter schools within their district boundaries. To date, 219 charter schools have been authorized in Michigan, by various authorizers.

### **ACADEMIC PERFORMANCE**

The Academy uses the Scantron Performance Series Standardized Test (“Performance Series”) to measure the academic performance of their students. The Performance Series is a Standards-based Adaptive Measurement (“SAM”) that utilizes an innovative computer-adaptive, Internet based model to target the instructional level of each student by altering question difficulty based on previous answers. Once the test is completed, the results are immediately available, providing an accurate evaluation of the student’s abilities.

The Key Benefits of the Performance Series are as follows:

- SAM adapts to the student’s instructional level, alleviating continued rounds of questions that are too easy or too difficult. SAM accurately places each student at his/her appropriate instructional level (grades 2-12).
- SAM is research-based, ensuring the reliability and validity of the test to accurately place each student.

- SAM reports are immediately available online after a student takes the test, since the test is Internet based. Levels of reports range from individual student's performance through district-wide results, with demographic and group filtering.
- SAM tracks students using a consistent scale as they move from one school to the next, and measures academic gains over one year or across multiple years. In additions, groups can be established (i.e. Title I, After School, etc.) to place students and track academic gains over time.

The following table reports the Academy's most recent Performance Series results broken down by grade and subject:

**TABLE 4: ACADEMY'S MOST RECENT PERFORMANCE SERIES**

<b>Grade</b>	<b>% of Students at or Above Grade Level (Reading)</b>	<b>% of Students at or Above Grade Level (Math)</b>
3 <sup>rd</sup>	37	14
4 <sup>th</sup>	44	35
5 <sup>th</sup>	40	11
6 <sup>th</sup>	51	29
7 <sup>th</sup>	52	16
8 <sup>th</sup>	56	20

Fifty-Six percent of the Academy's high school students are performing at or above a ninth grade level in reading. Twenty percent of the Academy's high school students are performing at or above a ninth grade level in math.

Source: Scantron via website at [www.scantron.com](http://www.scantron.com) and the Academy

## **STATE AID PAYMENTS**

The Academy's principal source of revenue is a per-pupil base foundation allowance received from the State pursuant to the State School Aid Act of 1979 M.C.L. Section 388.1601 et. seq. Payments are sent directly to CMU, which forwards the payments the Academy, minus a 3% authorizer fee.

The following table shows the per-pupil base foundation allowance that public school academies received for the 2000-01 through 2004-2005 school years. It also shows the maximum foundation allowance that the Michigan Legislature allowed public school academies for those years (the table does not show the amount of the payments the Academy actually received during those years). The Academy received the maximum foundation allowance in each of the years presented in the table below, and also received additional amounts based upon the at-risk student population of the Academy within a given school year. See "RISK FACTORS" in forepart of this Official Statement for additional information, including appropriation, reduction and termination of state aid payments.

**TABLE 5: PER PUPIL BASIC FOUNDATION ALLOWANCE**

<b>Fiscal Year</b>	<b>Basic Foundation Allowance Per Pupil</b>	<b>Public School Academy Maximum Foundation Allowance Per Pupil</b>
2000-01	\$6,000	\$6,500
2001-02	\$6,300	\$6,800
2002-03	\$6,700	\$6,923*
2003-04	\$6,700	\$7,000*
2004-05	\$6,700	\$7,000
2005-06	\$6,700	\$7,175

Source: The Academy, from information published in the Michigan School Aid Act Complied, Appendix C, published by the Michigan House and Senate Fiscal Agencies.

\*The maximum foundation allowance per pupil amount reflects the effect of the application of the



proration provisions of the School Aid Act. See “RISK FACTORS – Delay in, Reduction, or Termination of State School Aid,” in forepart of this Official Statement.

## **OTHER BORROWING**

The Academy issued a state aid anticipation note pursuant to Section 1225 of the Revised School Code to provide for operating costs for the 2005-06 school year (the "Note"). The outstanding principal balance of the Note is \$1,541,877 maturing June 30, 2006. The Note is the Academy's first budget obligation from State Aid Payments. The Academy has the right to borrow and pledge State School Aid for operating purposes in the future, however all pledges of State School Aid made subsequent to the issuance of the Bonds shall be subordinate to the pledged revenues.

## **FEDERAL/STATE FUNDING**

Public school academy students are similar to public school students for the purpose of eligibility for federal entitlement programs. A public school academy may receive federal grant funds directly from the Michigan Department of Education by following the same procedures that local school districts are required to follow.

## **BUDGET PROCESS AND INFORMATION**

The Academy's Board of Directors is responsible for establishing, approving and amending an annual budget in accordance with the Uniform Budgeting and Accounting Act, M.C.L. 141.421, et. seq. The Board must submit to the CMU Charter Schools Office a copy of its annual budget for the upcoming fiscal year in accordance with the Master Calendar of Reporting Requirements adopted by the Charter School Office. The budget must detail budgeted expenditures at the object level as described in the Michigan Department of Education's Michigan School Accounting Manual. The Academy's Board of Directors is also responsible for approving all revisions and amendments to the annual budget.

## **HISTORICAL AND PROJECTED REVENUES AND EXPENSES**

Set below is the Academy's historical and projected revenues and expenses. The information presented for the School Years ended June 30, 2004 and 2005 is actual data presented by the Academy, and for the School Years ending June 30, 2006 through 2010 is projected information provided by the Academy, which is based upon certain assumptions made by the Academy. The projections are derived from the actual operation of the Academy and from the Academy's assumption about student enrollment and expenses.

**NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE IS NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY THE ACADEMY.**

HISTORICAL AND PROJECTED REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
YEARS ENDING JUNE 30

	<u>2004-2005</u> Audited	<u>2005-2006</u> Budgeted	<u>2006-2007</u> Projected	<u>2007-2008</u> Projected	<u>2008-09</u> Projected	<u>2009-10</u> Projected	<u>2010-11</u> Projected
Elementary School Enrollment	455	452	535	575	600	635	650
Middle School Enrollment	322	345	360	380	400	410	410
High School Enrollment	333	453	495	510	530	550	550
Total Enrollment	1110	1250	1390	1465	1530	1595	1610
Blended Count Foundation Allowance (Actual for 2004-05)	1075.21	1224	1355	1446.25	1513.75	1578.75	1606.25
<b>REVENUE</b>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>	<u>2007-2008</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Local Revenue	\$ 198,489.00	\$ 201,000.00	\$ 231,150.00	\$ 242,707.50	\$ 291,249.00	\$ 305,811.45	\$ 321,102.02
State	7,764,522.00	8,782,200.00	9,722,125.00	10,376,843.75	10,861,156.25	11,327,531.25	11,524,843.75
Federal	570,404.00	570,404.00	627,444.40	690,188.84	759,207.72	835,128.50	918,641.35
Incoming Transfers							
<b>TOTAL REVENUES</b>	<b>\$ 8,533,415.00</b>	<b>\$ 9,553,604.00</b>	<b>\$ 10,580,719.40</b>	<b>\$ 11,309,740.09</b>	<b>\$ 11,911,612.97</b>	<b>\$ 12,468,471.20</b>	<b>\$ 12,764,587.12</b>
<b>EXPENDITURES</b>							
<i>Instruction:</i>							
Basic Programs	\$ 2,871,768.00	\$ 3,469,341.00	\$ 3,842,332.55	\$ 4,107,072.58	\$ 4,325,639.55	\$ 4,527,859.68	\$ 4,595,251.36
Added Needs	247,043.00	557,941.00	617,925.67	660,501.28	695,651.32	728,172.46	740,346.05
<i>Support Services</i>							
Pupil	58,077.00	238,619.00	245,777.57	253,150.90	297,514.65	306,440.09	315,633.30
General Administration	1,280,860.00	1,454,291.00	1,497,919.73	1,542,857.32	1,589,143.04	1,636,817.33	1,685,921.85
School Administration	682,102.00	938,917.00	967,084.51	996,097.05	1,025,979.96	1,186,759.36	1,352,362.14
Business	351,268.00	189,611.00	209,996.23	224,465.15	236,410.56	247,462.56	253,339.59
Lease Payments	0.00	527,200.00	521,982.00	544,740.00	549,936.00	554,100.00	558,552.00
Operating Expenses	2,107,147.00	829,810.00	898,743.77	922,347.99	1,035,898.67	1,080,504.06	1,107,966.16
Transportation	48,485.00	167,220.00	185,197.95	197,958.25	208,493.04	218,239.92	223,422.94
Child Care Services	41,065.00	80,283.00	88,914.29	95,040.56	100,098.35	104,777.87	107,266.26
Other	119,703.00	96,435.00	106,802.80	114,161.61	120,236.97	125,857.95	128,846.97
Outgoing Transfers	478,667.00	101,901.00	91,710.90	82,539.81	74,285.83	66,857.25	136,150.11
Other Financing Uses-	43,114.00						
<b>TOTAL OPERATING EXPENSE</b>	<b>\$ 8,329,299.00</b>	<b>\$ 8,651,569.00</b>	<b>\$ 9,274,387.97</b>	<b>\$ 9,740,932.49</b>	<b>\$ 10,259,287.94</b>	<b>\$ 10,783,848.52</b>	<b>\$ 11,205,058.72</b>
<b>NET REVENUES AVAILABLE FOR DEBT SERVICE</b>	<b>204,116.00</b>	<b>902,035.00</b>	<b>1,306,331.43</b>	<b>1,568,807.60</b>	<b>1,652,325.03</b>	<b>1,684,622.67</b>	<b>1,559,528.39</b>
Estimated Capitalized Interest	-	293,970.84	-	-	-	-	-
Estimated Debt Service	-	293,970.84	629,937.50	789,575.00	794,487.50	795,012.50	790,387.50
Estimated Debt Service Coverage	\$ -	\$ 3.07	\$ 2.07	\$ 1.99	\$ 2.08	\$ 2.12	\$ 1.97
Estimated Remaining Revenues	\$ -	\$ 902,035.00	\$ 676,393.93	\$ 779,232.60	\$ 857,837.53	\$ 889,610.17	\$ 769,140.89
Estimated Excess Net Revenues							
Debt Service as % of Total Revenue		0.00%	5.95%	6.98%	6.67%	6.38%	6.19%
Beginning Fund Balance	\$ 341,700.00	\$ 545,816.00	\$ 859,909.32	\$ 1,536,303.25	\$ 2,315,535.85	\$ 3,173,373.38	\$ 4,062,983.56
Ending Fund Balance	\$ 545,816.00	\$ 859,909.32	\$ 1,536,303.25	\$ 2,315,535.85	\$ 3,173,373.38	\$ 4,062,983.56	\$ 4,832,124.45

**EXHIBIT B**

**OLD REDFORD ACADEMY, PSA**

**REPORT ON  
AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2005**

**Taylor &  
Morgan**

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Certified Public Accountants



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Certified Public Accountants

October 28, 2005

To the Board of Education of  
Old Redford Academy, PSA  
Detroit, MI

We have audited the basic financial statements of Old Redford Academy, PSA (the Academy) for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our responsibility under Generally Accepted Audited Standards**

As stated in our engagement letter dated June 30, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the basic financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we made a study and evaluation of the plan's system of internal accounting control to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole, and accordingly do not express such an opinion.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered Old Redford Academy, PSA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and do not provide assurance on the internal control over financial reporting.

Our consideration of the internal control over the financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Old Redford Academy, PSA are described in Note 1 to the financial statements. We noted no transactions entered into by Old Redford Academy, PSA during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Significant Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Old Redford Academy PSA's financial reporting process.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on a certain situation. If a consultation involves application of an accounting principle to the Academy's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention of as the Old Redford Academy PSA's auditors. These discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered with Management in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

**Management Comments and Recommendations****Accounting Software**

We noted during our audit that the current accounting software is being underutilized especially in the areas of report generation and monthly reconciliations. The day to day receipting and disbursing function appears to be in place and operating as intended. However, when generating reports such as accounts payable aging, trial balances, and budget variance reports, a lack of understanding of the software capabilities were apparent. We noticed a significant improvement as the audit progressed but we feel that additional software specific type training would be very beneficial to the accounting staff.

Food Service

We noted during the testing of the food service program that some daily production records were not maintained on site in a manner consistent with the federal regulations. Also, we noted that there was not clear documentation as to the procurement process, especially bidding on the food purchases. We recommend that these areas be reviewed and policies be implemented to clearly document these requirements.

This information is intended solely for the use of the Board of Education of Old Redford Academy, PSA and its management and should not be used for any other purpose.

*Taylor & Morgan, P.C.*

Taylor & Morgan, P.C., CPA's  
Flint, MI

OLD REDFORD ACADEMY, PSA  
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

October 28, 2005

Board of Education  
Old Redford Academy, PSA  
Detroit, MI

We have audited the accompanying basic financial statements of Old Redford Academy, PSA as of and for the year ended June 30, 2005 as listed in the table of contents. These basic financial statements are the responsibility of the school's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amount and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Old Redford Academy PSA, Detroit, MI, as of June 30, 2005 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2005 our consideration of Old Redford Academy PSA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Old Redford Academy PSA, Detroit, MI, taken as a whole. The accompanying information identified in the table of contents as combining financial statements and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,

*Taylor & Morgan, P.C.*

TAYLOR & MORGAN, P.C.  
Certified Public Accountants

## MANAGEMENT DISCUSSION & ANALYSIS

Old Redford Academy, PSA – Detroit, Michigan  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005

Old Redford Academy, PSA (Academy) has implemented Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. Our discussion and analysis of Old Redford Academy's financial performance, a GASB 34 requirement, provides an overview of the Academy's financial activities for the fiscal year ended June 30, 2005.

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June, 2000. Certain comparative information between the current year and the prior year is required to be presented in the MD&A. The current year Management's Discussion and Analysis includes comparative information relative to the 2003-2004 and 2004-2005 fiscal years, respectively.

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

Old Redford Academy's *net assets* – the difference between assets and liabilities, as reported in the Statement of Net Assets, is one way to measure the Academy's financial health, or *financial position*. Over time, *increases or decreases* in the Academy's net assets, as reported in the Statement of Activities, is one indicator of whether its *financial health* is improving or deteriorating. The relationship between revenues and expenses indicates the Academy's *operating results*. However, the Academy's goal is to provide services to its students, not to generate profits as commercial entities do. Many other non-financial factors, such as the quality of the education provided and the safety of the school must also be considered when assessing the *overall health* of the Academy.

Old Redford Academy, PSA's net assets totaled \$770,164 at June 30, 2005. Of this amount, \$545,816 was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and legislation that limits the School District's ability to use those net assets for day-to-day operations. The following table is a comparable summary of the District's net assets at June 30, 2004 and June 30, 2005 respectively:

Assets	June 30, 2004	June 30, 2005
Current assets	\$ 1,165,597	\$ 1,587,149
Capital assets net of depreciation	176,357	224,348
Work in progress		
Total assets	\$ 1,341,954	\$ 1,811,497
Liabilities		
Current liabilities	\$ 823,897	\$ 1,041,333
Long-term liabilities		
Total liabilities	823,897	1,041,333
Net Assets		
Invested in capital assets, net of related debt	176,357	224,348
Unrestricted	341,700	545,816
Total net assets	518,057	770,164
Total liabilities and net assets	\$ 1,341,954	\$ 1,811,497

Old Redford Academy, PSA– Detroit, Michigan  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005

The \$545,816 in unrestricted net assets of governmental activities represents ORA funds that have not been committed contractually or for debt obligations and are available for future use.

Total net assets increased approximately \$252,107 in 2004-05. Of this amount, approximately \$200,000 was a result of an increase in revenues over expenditures at the fund level. The other major components of the increase in net assets are as follows:

➤ Depreciation expense

The provisions of GASB 34 require the Academy to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation is a reduction in net assets. Depreciation expense is recorded using a straight-line method over the estimated useful lives of the assets. In accordance with generally accepted accounting principals, depreciation expense is recorded based on the original cost of the asset less an estimated salvage value. For the year ended June 30, 2005 the net increase in depreciation expense and accumulated depreciation was \$51,016.

➤ Capital acquisitions

Capital outlay for the year ended June 30, 2005 totaled approximately \$99,000; combined with current year depreciation and the effect of disposals, net capital assets decreased by more than \$50,000.

Overall the Academy focused on monitoring and managing its financial resources in order to support the overall growth of the school while continuing to provide a solid educational alternative for all students.

Old Redford Academy, PSA – Detroit, Michigan  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005

The results of this year's operations for Old Redford Academy as a whole are reported in the Statement of Activities. A summary of the Academy-wide results of operations for the year(s) ended June 30, 2004 and June 30, 2005 are as follows:

	June 30, 2004	June 30, 2005
<b>General revenue:</b>		
State of Michigan aid, unrestricted	\$ 4,265,223	\$ 7,761,172
Other – federal, state and local	18,298	108,341
Loss on sale of fixed assets	(34,223)	
<b>Total general revenue</b>	<b>4,249,298</b>	<b>7,869,513</b>
<b>Program revenue:</b>		
Charges for services – local	75,068	90,148
Operating grants and contributions	690,922	573,754
<b>Total revenues</b>	<b>5,015,288</b>	<b>8,553,415</b>
<b>Expenses</b>		
Instruction	1,787,935	3,122,445
Support services	2,898,232	4,606,635
Enrichment services	19,475	41,065
Athletics	-0-	34,381
Food services	296,656	433,668
Interest on debt	-0-	43,114
<b>Total expenses</b>	<b>5,002,298</b>	<b>8,281,308</b>
<b>Increase in net assets</b>	<b>12,990</b>	<b>252,107</b>
<b>Net assets – July 1</b>	<b>505,067</b>	<b>518,057</b>
<b>Net assets – June 30</b>	<b>\$ 518,057</b>	<b>\$ 770,614</b>

Old Redford Academy PSA – Detroit, Michigan  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005

**GOVERNMENTAL FUNDS FINANCIAL HIGHLIGHTS**

Our financial statements provide the following insights about the results of this year's operations:

The financial condition of the governmental funds has improved from the prior year. In the General Fund state source funding increased by \$3,495,950. This was due primarily to an overall increase in the student population because of an addition of a high school location.

Federal sources also increased due to carryover funding and the addition of more at risk students.

**MAJOR GOVERNMENTAL FUNDS BUDGETING AND OPERATING HIGHLIGHTS**

Old Redford Academy's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year, before student enrollment counts are known. Therefore, it is expected that there will be changes between the initial budget and subsequent budgets, as actual enrollments and resultant staffing requirements are known. Currently, the most significant budgeted funds are the General Fund and the Special Revenue Funds. During the fiscal year ended June 30, 2005, the Academy amended the budgets of these major governmental funds one time. However, due to the implementation and subsequent training relative to the new financial software database, the budget should have been amended once more to properly reflect expenditure changes. Therefore, there were expenditure amounts that were allocated to certain function areas that should have been allocated to alternate function areas. Finally, system upgrades were not completed until May 2005, which prevented the opportunity for a timely final budget amendment.

***General Fund***

In the General Fund, the actual revenue was \$8,257,955. This is below the final amended budgeted amount of \$8,332,250, with a variance of less than 1%. The actual expenditures and other financing uses of the General Fund were \$8,053,839. This is above the final amended budgeted amount of \$7,794,715. The variances between the actual revenues and the final revenue budgets are due primarily to the following:

There was an end of the year adjustment in the current year allocations that occurred subsequent to the budget amendment. Additionally, there was a reduction in funding due to a prior year student accounting adjustment.

The variances between the actual General Fund expenditures and the original and final expenditure budgets include the following:

With the addition of the high school, there were maintenance and repair expenditures that were required to maintain the safe and clean school environment which is a hallmark attribute of Old Redford Academy. Furthermore, the lease agreement with the landlord contained bill-back provisions for expenditures incurred by the tenant. These expenditures were not billed back in an incremental manner such that the budget could be amended to reflect the billing trends. Finally, the budget was not amended to include the increased security personnel at the high school.

General Fund revenues totaled \$8,257,955 and total expenditures and other financing uses were \$8,053,839 for the 2004-2005 fiscal year. The fund balance was \$545,816 at June 30, 2005.

Old Redford Academy PSA – Detroit, Michigan  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005

**GOVERNMENTAL FUND EXPENDITURES**

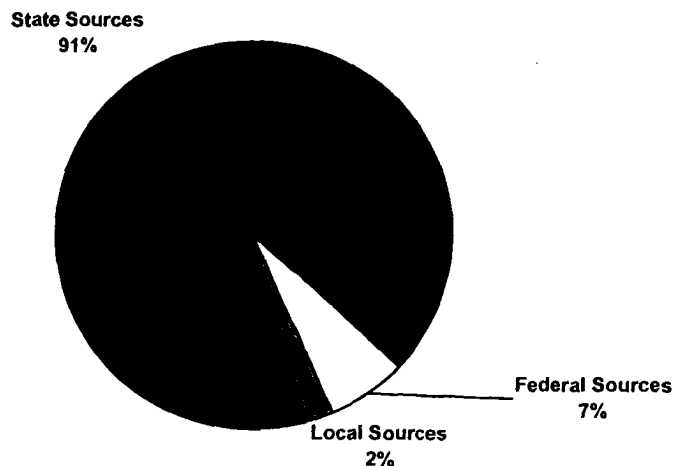
The following chart illustrates that General Fund comprises 94% of all the expenditures within the governmental funds of Old Redford Academy. For the fiscal year ended June 30, 2005, expenditures totaled \$8,286,185 for all Academy programs. The ending fund balance for all funds was \$545,816.

	June 30, 2004 (In millions)	<u>% Of TOTAL</u>
General Fund	\$7.8	94%
Other Non-major Funds	<u>0.5</u>	<u>6%</u>
Total	<u>\$8.3</u>	100%

**TOTAL REVENUES**

Revenues for all governmental funds totaled \$8,533,415. The following graph illustrates Old Redford Academy revenues by source as a percentage of total revenue:

**Revenues by Source**



***Unrestricted State Aid***

Old Redford Academy is predominately funded by State Aid, which has increased on a per-pupil basis between years at a modest rate. State revenues to the Academy increased \$3,495,949 as a result of increased enrollment and resultant State Aid in the current year. State aid membership was 601 and 462 in 2003-04 and 2002-03 respectively. During the 2004-2005 fiscal year, state aid membership was 1076 students. The state per-pupil allocation for 2002-03 was \$6,923 (with executive reductions) and \$7,000 for 2003-04 and 2004-2005.



Old Redford Academy PSA – Detroit, Michigan  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2004

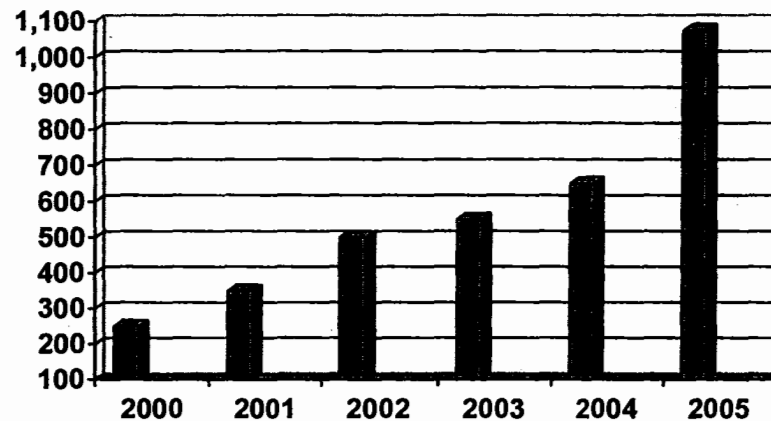
**ENROLLMENT**

Old Redford Academy PSA's 2004-2005 enrollment figures totaled 1076 students. This is an increase in enrollment of 475 students from the prior year, which is based on the additional enrollment at the high school.

The Academy is located in Northwest Detroit, which is a lower economical area that has a great need for improved educational alternatives. Therefore, ORA added a facility in 2003 to accommodate the high demand for a premier educational program and philosophy. The academic success of the Academy continued, resulting in the expansion to the high school in 2004.

Enrollment growth over the last ten years can be illustrated as follows:

Enrollment Growth



Enrollment is important to the financial health of the Academy because State funding is based on a per-pupil formula. For the fiscal year ended June 30, 2005, the gross per-pupil allowance was \$7,000.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

At the end of the 2004-2005 fiscal year, the Academy had \$389,118 invested in furniture and equipment, vehicles and buses. Of this amount, \$164,770 has been depreciated. Net book value totals \$224,348. Total additions for the year were \$99,007 which is comprised of furniture and equipment purchases as well as technology upgrades within the Academy. The Academy remains committed to the timely maintenance and repair of all educational facilities, of which, the majority of the buildings were constructed between 1950 and 1958.

**CAPITAL ASSETS AT YEAR END  
(NET OF DEPRECIATION)**

	Governmental
	<u>Activities</u>
Furniture and Equipment	<u>\$224,348</u>
Total	<u>\$224,348</u>

Old Redford Academy – Detroit, Michigan  
Management Discussion and Analysis  
For the Fiscal Year Ended June 30, 2005

***Debt***

**OUTSTANDING DEBT AT YEAR-END**

Currently, the Academy has a note due to CR Smith Foundation for approximately \$308,000. This note is a conduit transaction for the purpose of purchasing software upgrades and facility improvements incurred as the result of expansion.

For more detailed information regarding capital assets and debt administration, please review the Notes to the Basic Financial Statements located in the financial section of this report.

**CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT**

This report is designed to give an overview of the financial conditions of Old Redford Academy. If you should desire additional detailed financial program audits, they can be obtained by contacting the following persons: Reginald B. Scott II at 248-799-2780 extension 232 or Melvin Smith at 248-799-2780 extension 223.

## **BASIC FINANCIAL STATEMENTS**

OLD REDFORD ACADEMY, PSA  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

	Assets	Governmental Activities
Current Assets		
Cash and Cash Equivalents		\$ 176,548
Due from Other Governmental Units		1,405,601
Deposits for Service		<u>5,000</u>
Total Current Assets		1,587,149
Non-Current Assets		
Capital Assets		
Equipment and Furniture		389,118
Less: Accumulated Depreciation		<u>(164,770)</u>
Net Capital Assets		224,348
Total Non-Current Assets		<u>224,348</u>
Total Assets		<u>\$ 1,811,497</u>
	Liabilities	
Current Liabilities		
Accounts Payable		\$ 666,463
Accrued Payroll		66,298
Current Portion of Note Payable- C.R. Smith		<u>84,730</u>
Total Current Liabilities		817,491
Non-Current Liabilities		
Long-Term Portion of Note Payable- C.R. Smith		<u>223,842</u>
Total Liabilities		1,041,333
	Net Assets	
Net Assets		
Invested in Capital Assets, Net of Related Debt		224,348
Unrestricted		
Undesignated		<u>545,816</u>
Total Net Assets		<u>770,164</u>
Total Liabilities and Net Assets		<u>\$ 1,811,497</u>

See accompanying notes to basic financial statements

OLD REDFORD ACADEMY, PSA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

	Program Revenues			Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
Functions/Programs				
Governmental Activities				
Instruction				
Basic Programs	\$ 2,875,402	\$ -	\$ 38,331	\$ (2,837,071)
Added Needs	247,043	-	298,452	51,409
Support Services	4,606,635	-	-	(4,606,635)
Enrichment Services	41,065	51,659	-	10,594
Athletics	34,381	4,621	-	(29,760)
Food Service	433,668	33,868	236,971	(162,829)
Interest on debt	43,114	-	-	(43,114)
Total Governmental Activities	<u>\$ 8,281,308</u>	<u>\$ 90,148</u>	<u>\$ 573,754</u>	(7,617,406)
General Purpose Revenues				
State School Aid - Unrestricted				7,761,172
Miscellaneous				<u>108,341</u>
Total General Revenue				<u>7,869,513</u>
Change in Net Assets				252,107
Net Assets - July 1				<u>518,057</u>
Net Assets - June 30				<u>\$ 770,164</u>

See accompanying notes to basic financial statements

OLD REDFORD ACADEMY, PSA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

	General Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and Cash Equivalents	\$ 176,548	\$ -	\$ 176,548
Due from Other Governmental Units	1,405,601	-	1,405,601
Prepaid Deposits	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Total Assets	<u>\$ 1,587,149</u>	<u>\$ -</u>	<u>\$ 1,587,149</u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Accounts Payable	\$ 666,463	\$ -	\$ 666,463
Accrued Payroll	66,298	-	66,298
State Anticipation Note Payable	<u>308,572</u>	<u>-</u>	<u>308,572</u>
Total Liabilities	1,041,333	-	1,041,333
<b>Fund Balance</b>			
Unreserved	<u>545,816</u>	<u>-</u>	<u>545,816</u>
Total Fund Balance	<u>545,816</u>	<u>-</u>	<u>545,816</u>
Total Liabilities and Fund Balance	<u>\$ 1,587,149</u>	<u>\$ -</u>	<u>\$ 1,587,149</u>

See accompanying notes to basic financial statements

OLD REDFORD ACADEMY, PSA  
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES  
JUNE 30, 2005

Total Governmental Fund Balances	\$ 545,816
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Amounts reported for governmental activities in the Statement of  
Net Assets are different because:

Capital assets used in governmental activities are not financial  
resources and therefore are not reported as assets in  
governmental funds.

Cost of Capital Assets	\$ 389,118	
Accumulated Depreciation	<u>(164,770)</u>	<u>224,348</u>

Total Net Assets - Governmental Activities	\$ <u>770,164</u>
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See accompanying notes to basic financial statements

OLD REDFORD ACADEMY, PSA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Other Local Sources	\$ 160,000	\$ 38,489	\$ 198,489
State Sources	7,764,522	-	7,764,522
Federal Sources	333,433	236,971	570,404
Total Revenues	8,257,955	275,460	8,533,415
<b>Expenditures</b>			
<b>Instruction</b>			
Basic Programs	2,871,768	-	2,871,768
Added Needs	247,043	-	247,043
Total Instruction	3,118,811		3,118,811
<b>Support Services</b>			
Pupil Services	58,077	-	58,077
Instructional Staff Services	3,952	-	3,952
General Administration	1,280,860	-	1,280,860
School Administration	682,102	-	682,102
Business Services	351,268	-	351,268
Operation and Maintenance	2,107,147	-	2,107,147
Pupil Transportation	48,485	-	48,485
Other Supporting Services	115,751	478,667	594,418
Total Support Services	4,647,642	478,667	5,126,309
Enrichment Services	41,065	-	41,065
Total Expenditures	7,807,518	478,667	8,286,185
Excess/(Deficiency of Revenues over/(under) Expenditures	450,437	(203,207)	247,230
<b>Other Financing Sources/(Uses)</b>			
Interest Expense	(43,114)	-	(43,114)
Operating Transfers	(203,207)	203,207	-
Total Other Financing Sources/(Uses)	(246,321)	203,207	(43,114)
Net Changes in Fund Balance	204,116	-	204,116
Fund Balance - July 1	341,700	-	341,700
Fund Balance - June 30	\$ 545,816	\$ -	\$ 545,816

See accompanying notes to basic financial statements



OLD REDFORD ACADEMY, PSA  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2005

Total Net Change in Fund Balances - Governmental Funds	\$	204,116
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Amounts reported for governmental activities in the Statement  
 of Activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the  
 Statement of Activities, the cost of those assets is allocated over their estimated  
 useful lives as depreciation expense. This is the amount by which depreciation  
 exceeded capital outlay in the current period.

Capitalized Assets	\$	99,007	
Depreciation Expense		<u>(51,016)</u>	<u>47,991</u>
Change in Net Assets of Governmental Activities	\$		<u><u>252,107</u></u>

See accompanying notes to basic financial statements

**NOTES TO FINANCIAL STATEMENTS**

OLD REDFORD ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of Old Redford Academy ("the Academy") conform to generally accepted accounting principles as applicable to school academies. The following is a summary of the significant accounting policies:

In June 1999, the Governmental Accounting Standards Board (GASB) issued *Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section to provide an analysis of the Academy's overall financial position and results of operations.
- Financial statements prepared with full accrual accounting for all of the Academy's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

**Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The Academy receives funding from local, state, and federal government sources and must comply with the accompanying requirements of these funding source entities. However, the Academy is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to determine its budget, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

**Basic Financial Statements – Government-wide Statements**

The Academy's basic financial statements include both government-wide (reporting the Academy as a whole) and fund financial statements (reporting the Academy's major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the Academy's activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The Academy first utilizes restricted resources to finance qualifying activities.

**OLD REDFORD ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

**Note 1 - Summary of Significant Accounting Policies (continued)**

The government-wide Statement of Activities reports both the gross and net cost of each of the Academy's functions. General government revenues (certain intergovernmental revenues, fines, permits and charges, etc.) also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (state and federal sources, interest income, etc.).

The Academy does not allocate indirect costs. Interfund transactions have been eliminated in the government-wide financial statements.

**Basic Financial Statements - Fund Financial Statements**

The accounts of the Academy are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report; into two generic fund types in one broad fund categories as follows:

**Governmental Funds**

Governmental funds are those funds through which most academy functions typically are financed. The acquisition, use, and balances of the Academy's expendable financial resources and the related current liabilities are accounted for through governmental funds.

**General Fund** - The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

**Special Revenue Funds** - Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The Academy maintains full control of these funds. The Academy maintains one school service fund: the Food Service Fund.

**Basis of Accounting/Measurement Focus**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

**Accrual**

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

OLD REDFORD ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The Academy reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Academy receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**Cash and Investments** – Cash and cash equivalents include amounts in demand deposits, sweep accounts, and certificate of deposits with original maturities less than 180 days. The Academy reports its investments in accordance with Governmental Accounting Standards Board (GASB) *Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and *No. 40, Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the Academy intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

State statutes authorize the Academy to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury, certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), or National Credit Union Administration (NCUA), respectively; and in commercial paper rated at the time of purchase within the three highest classifications established by no less than two standard rating services and which matures not more than 270 days after the date of purchase. The Academy is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, mutual funds composed of investments outlined above, and investment pools, as authorized by the surplus funds investment pool act, Act. No. 367 of the Public Acts of 1982, being sections 129.11 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by an academy.

**Inventories** - Items purchased for future use are recorded as inventory and charged to expenditure accounts when requisitioned for use. Food Service Fund inventory consists of food and paper goods recorded at cost and commodity inventory recorded at fair market value as determined by the USDA.

OLD REDFORD ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**Note 1 - Summary of Significant Accounting Policies (continued)**

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. The Academy has adopted a \$2,000 capitalization threshold for recording capital assets. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is computed on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and equipment	5 – 20 years

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Economic Dependency – The Academy receives approximately 91% of its operating revenue from the State of Michigan.

**Note 2 - Budget and Budgetary Accounting**

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General, Special Revenue, and Debt Retirement Funds and an informational study of Capital Project Funds of academies prior to the expenditure of monies in a fiscal year.

The Board of Education adopts appropriations utilizing the modified accrual basis of accounting for all governmental funds. The appropriation level adopted by the Board is the level of control authorized by the Act. The Act requires expenditures to be budgeted on a functional basis. An Academy is not considered to be in violation of the Act if reasonable procedures are in use by the Academy to detect violations. •

The Academy follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Academy's CEO submits to the Board of Education a proposed budget by July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. The CEO is authorized to transfer budgeted amounts between functions within any fund with the approval of the Board of Education; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Education.

OLD REDFORD ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**Note 2 - Budget and Budgetary Accounting (continued)**

3. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles.
4. Budgeted amounts are as originally adopted, or as amended by the Board of Education throughout the year. Individual amendments were not material in relation to the original appropriations, which were amended.
5. Appropriations lapse at year-end and, therefore, cancel all encumbrances. These appropriations are reestablished at the beginning of the following year.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as required supplementary information.

**Note 3 - Deposits and Investments**

At June 30, 2005, the Academy had the following investments.

*General Fund*

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Credit Quality/ Rating</u>	<u>Percent of Total</u>
Money Market	\$ 52,770	N/A	100%

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Academy's policy provides that to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities and are invested primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Academy's investment in a single issuer. Cumulatively, portfolios of the Academy may not be invested in any given financial institution in excess of 5% of such institution's total assets. Additionally, no more than 5% of the total Academy portfolio may be placed with any single financial institution with the exception of repurchase agreements. U.S. government securities and 2a7-like investment pools are excluded from these restrictions.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits this exposure by mandating that the Academy's investments in commercial paper and corporate bonds be limited to those with a prime rating or better issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2005, the Academy had no direct investments in commercial paper/corporate bonds.

**OLD REDFORD ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005**

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Academy's deposits may not be returned or the Academy will not be able to recover collateral securities, if any, in the possession of an outside party. At June 30, 2005, all of the Academy's deposit balances were insured.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Academy is not authorized to invest in investments that would be subject to this type of risk.

**Note 4 - Changes in Capital Assets**

Summary of capital asset transactions:

	<u>Balance June 30, 2004</u>	<u>Additions</u>	<u>Disposals and Adjustments</u>	<u>Balance June 30, 2005</u>
Furniture & Equip.	\$ 290,110	99,007	-0-	\$ 389,117
Accumulated Depreciation	(113,753)	(51,016)	-0-	(164,769)
Net Capital Assets	\$ 176,357	47,991	-0-	\$ 224,348

Depreciation expense was allocated to governmental functions. Depreciation was recorded on the Statement of Activities as follows:

Instruction	\$ 4,693
Support Services	41,255
Food Service	5,068
Total Depreciation Expense	<u>\$ 51,016</u>

**Note 5 - State Aid Anticipation Loan**

The Academy was issued a State Aid Anticipation Loan of \$1,710,000 on July 21, 2004 at an interest rate of 3.17% per annum and matures on June 30, 2005. Interest expenditures related to this loan for 2004-2005 amounted to approximately \$33,000.



OLD REDFORD ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**Note 6 – ITS Master Lease**

The Academy leases a majority of its facilities from Innovative Teaching Solutions, Inc. (ITS) for \$70,000 per month. The lease contains various cancellation provisions and is subject to annual appropriations. The term of the lease is from July 1, 2003 to June 30, 2008. Effective June 1, 2004 the lease amount was renegotiated to \$55,000 per month. For the year ended June 30, 2005, rent expenditures approximated \$660,000. These expenditures were made primarily from the General Fund.

Future minimum lease payments under the lease agreement to be paid from the General Fund monies are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2006	\$ 660,000
2007	660,000
2008	<u>660,000</u>
Total	<u>\$1,980,000</u>

**Note 7 – C.R. Smith Foundation**

The Academy leases 2 buses, a vehicle and its high school facilities from the C.R. Smith Foundation with lease payments ranging from \$525 to \$17,600. The leases contain various cancellation provisions and are subject to annual appropriations.

In December of 2004, Old Redford Academy, PSA arranged through C.R. Smith to borrow \$356,000 from Key Bank for software upgrades and facility improvements. The agreement calls for ORA to pay back the installment note to Key Bank on behalf of C.R. Smith. A note payable to C.R. Smith has been recorded in the financial statements reflecting this transaction.

Future minimum payments under the lease and conduit financing agreement to be paid from the General Fund monies are as follows:

Year Ended <u>June 30,</u>	<u>Amount</u>
2006	\$ 127,032
2007	131,538
2008	136,284
2009	<u>82,918</u>
Total	<u>\$ 477,772</u>

OLD REDFORD ACADEMY  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2005

**Note 8 – Defined Benefit Pension Plan**

The Academy did not participate in the Michigan Public School Employees' Retirement System (MPERS). All personnel services were provided by the management company, Innovative Teaching Solutions, Inc. of Michigan. Therefore, no pension plan disclosure is deemed necessary.

**Note 9 – Interfund Transfers**

The Academy made the following interfund transfers during the year:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Athletics</u>	<u>Total</u>
To:		\$ 173,447	\$ 29,760	\$ 203,207
From:	\$ 203,207			\$ 203,207

The transfers were for the purposes of funding the food services program and athletics provided by the Academy.

**Note 10 - Contingencies and Commitments**

The Academy has received federal and state grants for specific purposes. These grants are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowance under terms of the grants, management believes that any required reimbursements would not be material.

**Note 11 – Risk Management**

The Academy is exposed to various risks of loss related to property loss, torts, errors and omissions. The Academy purchases commercial insurance coverage to cover potential claims, and management believes this coverage is sufficient to protect the Academy from any significant adverse financial impact.

**Note 12 – Expenditures in Excess of Appropriations**

In the fiscal year ended June 30, 2005, the Academy exceed its overall budget appropriations in the General Fund by \$333,419.

**REQUIRED SUPPLEMENTAL INFORMATION**

OLD REDFORD ACADEMY, PSA  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Local Sources	\$ 118,720	\$ 110,000	\$ 160,000	\$ 50,000
State Sources	7,372,190	7,839,265	7,764,522	(74,743)
Federal Sources	353,292	382,985	333,433	(49,552)
Total Revenues	7,844,202	8,332,250	8,257,955	(74,295)
Expenditures				
Education				
Instruction				
Basic Programs	3,027,769	2,933,556	2,871,768	61,788
Added Needs	267,332	391,181	247,043	144,138
Supporting Services				
Pupil Services	103,619	95,000	58,077	36,923
Instructional Staff	40,000	22,000	3,952	18,048
General Administration	1,245,656	1,354,883	1,280,860	74,023
School Administration	765,163	646,876	682,102	(35,226)
Business Services	160,706	246,265	351,268	(105,003)
Operation and Maintenance	1,870,631	1,834,311	2,107,147	(272,836)
Transportation	126,703	106,490	48,485	58,005
Other Services	85,694	24,153	115,751	(91,598)
Enrichment Services	-	-	41,065	(41,065)
Total Expenditures	7,693,273	7,654,715	7,807,518	(152,803)
Other Financing Uses				
Operating Transfers	(136,763)	(140,000)	(203,207)	(63,207)
Interest Payments	-	-	(43,114)	(43,114)
Total Other Financing Sources/(Uses)	(136,763)	(140,000)	(246,321)	(106,321)
Excess of Revenues Over/(Under) Expenditures and Other Financing Sources/(Uses)	14,166	537,535	204,116	(333,419)
Fund Balance - July 1	341,700	341,700	341,700	-
Fund Balance - June 30	\$ 355,866	\$ 879,235	\$ 545,816	\$ (333,419)

**OTHER SUPPLEMENTAL INFORMATION**

OLD REDFORD ACADEMY, PSA  
OTHER SUPPLEMENTAL INFORMATION  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2005

	<u>Special Revenue Funds</u>		<u>Non-major Governmental Funds Total</u>
	<u>School Lunch Fund</u>	<u>Athletics Fund</u>	
<b>Assets</b>			
Cash and investments	\$ -	\$ -	\$ -
Due from other funds	-	-	-
Inventory	-	-	-
<b>Total assets</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>			
Accounts payable	-	-	-
Due to other funds	\$ -	\$ -	\$ -
<b>Total liabilities</b>	-	-	-
<b>Fund balances</b>			
Reserved for debt service	-	-	-
Undesignated, Reported in school service fund	-	-	-
<b>Total fund balances</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

OLD REDFORD ACADEMY, PSA  
OTHER SUPPLEMENTAL INFORMATION  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2005

	Special Revenue Funds		Non-major
	School	Athletics	Governmental
	Lunch	Fund	Funds
	Fund		Total
Revenues			
Revenues from local sources			
Food sales	\$ 33,868	\$ -	\$ 33,868
Athletics admissions	-	3,241	3,241
Student participation income	-	1,380	1,380
Federal aid	236,971	-	236,971
Total revenues	270,839	4,621	275,460
Expenditures			
Purchased services	314,508	29,711	344,219
Supplies and materials	128,630	-	128,630
Other	1,148	4,670	5,818
Total expenditures	444,286	34,381	478,667
Excess (deficiency) of revenues over/(under) expenditures	(173,447)	(29,760)	(203,207)
Other financing sources/(uses)			
Operating transfers	173,447	29,760	203,207
Total other financing sources (uses)	173,447	29,760	203,207
Net change in fund balances	-	-	-
Fund balance - July 1	-	-	-
Fund balance - June 30	\$ -	\$ -	\$ -

OLD REDFORD ACADEMY, PSA  
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES-GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

		TOTALS	
		June 30, 2005	June 30, 2004
Revenues:			
Revenue from Local Sources:			
Enrichment Fees	\$	51,659	\$ 55,251
Other Local Revenue		108,341	18,298
Total Revenue from Local Sources		160,000	73,549
Revenue from State Sources:			
Unrestricted Grants			
State School Aid		7,761,172	4,265,223
Restricted Grants		3,350	235,258
Total Revenue from State Sources		7,764,522	4,500,481
Revenue from Federal Sources:			
Restricted Grants			
Title I		243,000	208,262
Title IIA/Improving Teacher Quality		38,331	37,000
Title IID/Ed. Tech		5,435	10,169
Title V		2,399	7,569
IDEA Flow Through		44,268	24,375
Total Revenue from Federal Sources		333,433	287,375
Other Financing Sources:			
Sale of Fixed Assets		-	96,000
Total Other Financing Sources		-	96,000
Total Revenues and Other Financing Sources	\$	8,257,955	\$ 4,957,405



OLD REDFORD ACADEMY, PSA  
OTHER SUPPLEMENTAL INFORMATION  
GENERAL FUND  
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES  
FOR THE YEAR ENDED JUNE 30, 2005  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

	Purchased Services	Supplies & Materials	Other Expenses	TOTALS	
				June 30, 2005	June 30, 2004
Instruction					
Basic Programs					
Elementary	\$ 996,203	\$ 95,925	\$ 52,993	\$ 1,145,121	\$ 849,035
Middle School	771,453	88,543	18,210	878,206	638,774
High School	710,657	94,041	43,743	848,441	-
Added needs					
Special Education	131,338	7,204	735	139,277	157,452
Compensatory Education	55,049	41,173	11,544	107,766	142,680
Total Instruction	2,664,700	326,886	127,225	3,118,811	1,787,941
Supporting Services					
Pupil:					
Guidance	17,690	-	-	17,690	36,774
Speech	40,387	-	-	40,387	4,819
Instructional Staff:					
Instructional Support	3,748	90	114	3,952	5,292
General Administration:					
Board of Education	39,714	-	-	39,714	32,444
Executive Administration	1,197,986	8,670	34,490	1,241,146	752,218
School Administration	671,540	7,280	3,282	682,102	491,331
Business Services:					
Fiscal Services	179,166	20,040	152,062	351,268	141,609
Operations & Maintenance:					
Operation & Maintenance	784,501	1,224,740	97,906	2,107,147	1,261,138
Pupil Transportation					
Pupil Transportation Services	269	47,915	301	48,485	39,140
Other Services:					
Other Support	49,715	2,085	63,951	115,751	166,864
Total Support Services	2,984,716	1,310,820	352,106	4,647,642	2,931,629
Enrichment Services					
Enrichment Programs	40,956	109	-	41,065	19,475
Employee Benefits	-	-	-	-	-
Total Enrichment Services	40,956	109	-	41,065	19,475
Other Financing Uses					
Operating Transfers	-	-	203,207	203,207	118,139
Interest Payments	-	-	43,114	43,114	-
Principal	-	-	-	-	12,097
Total Other Financing Uses	-	-	246,321	246,321	130,236
Total Expenditures and Other Financing Uses	\$ 5,690,372	\$ 1,637,815	\$ 725,652	\$ 8,053,839	\$ 4,869,281

## **A-133 INFORMATION**



Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON  
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

October 28, 2005

To the Board of Education  
Old Redford Academy, PSA  
Detroit, MI

We have audited the basic financial statements of Old Redford Academy, PSA as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Old Redford Academy, PSA's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Old Redford Academy, PSA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management, The Michigan Department of Education, and federal awarding agencies and pass through entities. However, this report is a matter of public record and its distribution is not limited.

*Taylor & Morgan, P.C.*

TAYLOR & MORGAN, P.C.  
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

October 28, 2005

To the Board of Education  
Old Redford Academy, PSA  
Detroit, MI

Compliance

We have audited the compliance of Old Redford Academy, PSA with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Old Redford Academy, PSA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Old Redford Academy, PSA's management. Our responsibility is to express an opinion on Old Redford Academy, PSA's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Old Redford Academy, PSA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Old Redford Academy, PSA's compliance with those requirements.

In our opinion, Old Redford Academy, PSA's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

#### Internal Control Over Compliance

The management of Old Redford Academy, PSA is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Old Redford Academy PSA's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of management, The Michigan Department of Education, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Taylor & Morgan, P.C.*

TAYLOR & MORGAN, P.C.  
Certified Public Accountants

OLD REDFORD ACADEMY, PSA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

Federal Grantor Pass Through Grantor Program Title/Grantor's No.	Federal CFDA Number	Award/ Grant Amount	July 1, 2004 Accrued (Deferred) Revenue	Current Year Expenditures	Current Year Receipts	June 30, 2005 Accrued (Deferred) Revenue	Income Recognized
<u>U.S. Department of Education:</u>							
<u>Passed Through M.D.E.:</u>							
Title I							
041530 0304	84.010	\$ 218,282	\$ -	\$ 10,000	\$ 10,000	\$ -	\$ 10,000
051530 0405	84.010	236,318	-	233,000	233,000	-	233,000
Sub-Total 84.010		454,581	-	243,000	243,000	-	243,000
Title V LEA Allocation							
040250 0304	84.298	7,968	-	399	399	-	399
050250 0405	84.298	8,512	-	2,000	2,000	-	2,000
Sub-Total 84.298		16,480	-	2,399	2,399	-	2,399
Technology Literacy Grant							
034290 0304	84.318	6,297	-	297	297	-	297
044290 0304	84.318	5,307	-	1,138	1,138	-	1,138
054290 0405	84.318	4,006	-	4,000	4,000	-	4,000
Sub-Total 84.318		17,610	-	5,435	5,435	-	5,435
Improving Teacher Quality							
040520 0304	84.367	37,331	-	331	331	-	331
050520 0405	84.367	40,280	-	38,000	38,000	-	38,000
Sub-Total 84.367		77,611	-	38,331	38,331	-	38,331
Total Passed Through M.D.E.		566,282	-	289,165	289,165	-	289,165
<u>Passed Through Wayne R.E.S.A.</u>							
IDEA Flowthrough (04-05)							
050450-0405	84.027A	46,893	-	42,204	42,204	-	42,204
IDEA Flowthrough (03-04)							
040450-0304	84.027A	2,064	-	2,064	2,064	-	2,064
Sub-Total 84.027A		48,957	-	44,268	44,268	-	44,268
<u>U.S. Department of Agriculture:</u>							
<u>Passed Through M.D.E.:</u>							
National School Lunch Program (04-05)	10.555	202,394	-	202,394	202,394	-	202,394
Food Distributions							
Entitlement Commodities	10.550	28,007	-	28,007	28,007	-	28,007
Bonus Commodities	10.550	6,570	-	6,570	6,570	-	6,570
Sub-Total 10.550		34,577	-	34,577	34,577	-	34,577
Total Department of Agriculture		236,971	-	236,971	236,971	-	236,971
Total All Federal Agencies		\$ 852,210	\$ -	\$ 570,404	\$ 570,404	\$ -	\$ 570,404

OLD REDFORD ACADEMY, PSA  
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	\$ <u>570,404</u>
FEDERAL REVENUE RECOGNIZED PER THE GENERAL PURPOSE FINANCIAL STATEMENTS PURPOSE	
General Fund	\$ 333,433
School Service Fund	<u>236,971</u>
TOTAL	\$ <u>570,404</u>

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on Page 34 of this report.

OLD REDFORD ACADEMY, PSA  
RECONCILIATION OF FORM R7120 "GRANT SECTION AUDITOR'S REPORT"  
TO THE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

Current Payments Per the Grant Section Auditor's Report (Form R 7120)	\$ 491,559
<u>Add:</u> Grants Passed Through the Wayne Regional Educational Services Admin.	44,268
Entitlement and Bonus Commodities (CFDA 10.550)	<u>34,577</u>
TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	\$ <u>570,404</u>



OLD REDFORD ACADEMY, PSA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005

Section I - Summary of Auditor's Results

*Financial Statements*

Type of auditor's report issued: *Unqualified*

Internal control over financial reporting:

Material weakness(es) identified?	<i>No</i>
Reportable condition(s) identified that are not considered to be material weaknesses?	<i>No</i>
Noncompliance material to financial statements noted?	<i>No</i>

*Federal Awards*

Internal control over major programs:

Material weakness(es) identified?	<i>No</i>
Reportable condition(s) identified that are not considered to be material weaknesses?	<i>No</i>
Audit findings required to be reported in accordance with sections 510(a) Circular 133?	<i>No</i>

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? *No*

Identification of major programs:

CFDA Number(s)	Name of Federal Program of Cluster
<i>10.555</i>	<i>National School Lunch</i>
<i>84.010</i>	<i>Title I</i>

Dollar threshold used to distinguish between Type A and Type B programs: *\$300,000*

Auditee qualified as low-risk auditee? *No*

Section 2-Financial Statement Findings

*No matters were noted.*

Section 3-Federal Award Findings and Questioned Costs

*No matters were noted*

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## **EXHIBIT C**

### **SUMMARY OF CERTAIN MICHIGAN STATUTORY PROVISIONS PERTAINING TO PUBLIC SCHOOL ACADEMIES**

#### ***Definition of Public School Academy (M.C.L. § 380.501(1), 380.502(1))***

A public school academy is state-supported public school that is considered both a body corporate and a governmental agency. According to the statutes, a public school academy corporation must be organized under Michigan's non-profit corporation act, M.C.L. §§ 450.2101 to 450.3192. A public school academy is also considered a school district for purposes of borrowing money and issuing notes and bonds pursuant to M.C.L. § 380.1225 and 380.1351a, respectively, and it is subject to the leadership and general supervision of the state board of public education. The state board of education is responsible for issuing an annual comprehensive report evaluating public school academies to the house and senate committees on education. See M.C.L. § 380.501a.

#### ***Sponsors of and Applicants for Public School Academies (M.C.L. § 380.502)***

Charter contracts may be issued by any one of the following authorizing bodies: (i) local school districts, (ii) intermediate school districts, (iii) community colleges, and (iv) state public universities. Any person interested in operating a public school academy may apply to an authorizing body.

Currently, there is a cap on the number of charter contracts that can be issued by state public universities. The number of contracts for public school academies issued by all state public universities is 150. The number of contracts issued by any one state university shall not exceed 50% of the maximum total that may be issued by state universities.

#### ***Method of Establishment and Oversight of Public School Academies (M.C.L. § 380.502(3-7))***

When a person applies for a contract to operate a public school academy, the application must: (1) identify the applicant; (2) list the proposed members of the board of directors of the public school academy and a description of the qualifications and method for appointment or election of the board of directors; (3) include a copy of the proposed articles of incorporation for the public school academy, including (i) the name of the proposed public school academy, (ii) the purposes of the public school academy, (iii) the name of the authorizing body, (iv) the proposed time when the articles of incorporation will be effective, and (v) other matters as necessary; (4) include a copy of the proposed bylaws of the public school academy; (5) document the requirements of the authorizing body, including (i) the governance structure of the public school academy, (ii) a copy of the educational goals of the public school academy, the curricula to be offered, and the methods of pupil assessment, (iii) the admission policy and criteria to be maintained, (iv) the school calendar and school day schedule, and (v) the age or grade range of pupils to be enrolled; (6) describe staff responsibilities and the governance structure; (7) identify the local and intermediate school districts in which the public school academy will be located; (8) agree that the public school academy will comply with all applicable state and federal laws; (9) for an application to a school district, assure that employees of the public school academy will be covered by collective bargaining agreements that apply to other public employees in schools; and (10) describe and identify the address where the public school academy will be located.

An authorizing body that issues a contract for a public school academy must oversee the public school academy to ensure that the public school academy is in compliance with statutes, rules, and the terms of the contract. If an authorizing body grants a charter contract, it may charge a fee that does not exceed 3% of the total state school aid received by the public school academy in the school year in which the fees and expenses are charged. An authorizing body may contract with a public school academy for other services aside from the oversight services.

***Legal Status of Public School Academy (M.C.L. § 380.501, 380.503b)***

A public school academy is a body corporate, a governmental agency, a public school, and is considered a school district under certain provisions of State law. If a public school academy enters into an agreement, mortgage, loan, or other instrument of indebtedness with a third party, such arrangement does not constitute an obligation, either general, special, or moral of the State of Michigan or the authorizing body. The State or an authorizing body is not liable for any debt incurred by a public school academy.

***Public School Academy Funding (§ 388.1601 et. seq.; § 141.2101 et. seq.)***

A public school academy receives funding through the per pupil base foundation, as calculated in Michigan's State School Aid Act, M.C.L. § 388.1601 et. seq. The School Aid Act currently provides that pupil membership is based upon a blended count of 75% of the current September count plus 25% of the prior February supplemental count, all as determined by the Michigan Department of Education. A public school academy's State School Aid is sent directly to the academy's authorizing body, which takes its 3% fee and then forwards the remainder of the aid payments to the public school academy. Pursuant to the State School Aid Act, a school district receives its annual State School Aid entitlement in eleven equal Leases on dates in October through August, subject to certain statutory adjustments. By law, a public school academy's State School Aid payment must not exceed the per-pupil base foundation received by the local school district in which the public school academy is located.

A public school academy may not charge tuition and may not levy taxes. A public school academy may receive federal grant funds directly from the Michigan Department of Education by following the same procedures that local school districts are required to follow. A public school academy may borrow money and may issue bonds in accordance with the Revised School Code, M.C.L. § 380.1 et. seq., and the Revised Municipal Finance Act, 2001 PA 34, M.C.L. §§ 141.2101 to 141.2821.

***Authorizing Body's Duties With Respect to State School Aid Payments (M.C.L. § 380.507)***

The authorizing body for a public school academy is the fiscal agent for the public school academy; therefore, it receives state school aid payments on behalf of the public school academy and then forwards such aid payments to the public school academy (less a fee that it may charge which does not exceed 3% of the total state school aid received by the public school academy in the school year in which the fees and expenses are charged).

***Withholding payment; plan for financing outstanding obligation defaulted upon by a public school academy; use of amounts withheld; agreement assigning or pledging payment (M.C.L. § 388.1617a)***

The Michigan Department of Treasury may withhold all or part of any payment of State School aid that a public school academy is entitled to receive to the extent the withholdings are a component part of a plan, developed and implemented pursuant to the revised municipal finance act, 2001 PA 34, MCL 141.2101, *et al*, or other statutory authority, for financing an outstanding obligation upon which the public school academy defaulted. Amounts withheld shall be used to pay, on behalf of the public school academy, unpaid amounts or subsequently due amounts, or both, of principal and interest on the outstanding obligation upon which the public school academy defaulted.

Under an agreement entered into by a public school academy assigning all or a portion of the payment of State School aid that it is eligible to receive to a trustee of a pooled arrangement, such as the Issuer, or pledging the amount for payment of an obligation it incurred with a trustee of a pooled arrangement, the state treasurer shall transmit to the trustee of a pooled arrangement the amount of the payment of the State School aid that is assigned or pledged under the agreement. This section does not require the State of Michigan to make an appropriation to any public school academy and shall not be construed as creating an indebtedness of the State of Michigan, and any agreement made pursuant to this section shall contain a statement to that effect.

### ***Deficit Budget or Operating Deficit (M.C.L. § 388.1702)***

Michigan law provides that a public school academy receiving State School aid shall not adopt or operate under a deficit budget, or incur an operating deficit in any fund, during a school fiscal year. Where a public school academy has an existing deficit or incurs a deficit fund balance, such public school academy shall not receive payments under the School Aid Act until it submits to the Michigan Department of Education (the "Department") a budget for the current school fiscal year and a plan for the elimination of the deficit not later than the end of the second school fiscal year after the deficit was incurred. In addition, a public school academy with an existing deficit or which incurs a deficit shall submit to the Department a monthly monitoring report on revenue and expenditures in a form prescribed by the Department. Any State School Aid payments that have been withheld from a public school academy due to a deficit will be released to the public school academy after the Department approves the deficit reduction plan and ensures that the budget for the current school fiscal year is balanced.

### ***Revocation of Charter (M.C.L. § 380.507)***

A charter contract may be revoked by the authorizing body for the following reasons: (1) failure of the public school academy to abide by and meet the educational goals set forth in the contract, (2) failure of the public school academy to comply with all applicable law, (3) failure of the public school academy to meet generally accepted public sector accounting principles, and (4) any other grounds for revocation as specified in the charter contract. The decision to revoke a contract is in the discretion of the authorizing body, is final, and is not subject to review by a court or any state agency.

### ***Issuance of Contracts (M.C.L. § 380.503)***

Public school academy contracts shall be issued on a competitive basis, while taking the following into consideration: (1) the resources available for the proposed public school academy, (2) the population to be served by the public school academy, and (3) the educational goals to be achieved by the public school academy. With respect to applications to a local school district, if the board denies an application for a public school academy contract, the person who applied for the contract may petition the board to place the question of the issuance of the contract on a ballot to be decided by the school electors of the school district. The petition must contain the same requirements that are to be included in an application for a charter contract and must be signed by at least 15% of the school electors in that school district.

Within 10 days of issuing a contract for a public school academy, the authorizing body must submit to the superintendent of public instruction a copy of the contract and application. The authorizing body must also adopt a resolution establishing the method of selection, length of term, and number of members of the board of directors of each public school academy subject to its jurisdiction.

A public school academy contract must at least include the following: (1) the educational goals of the public school academy and methods by which it will be held accountable (at a minimum, the pupil performance must be assessed using a Michigan educational assessment program ("MEAP") test or an assessment instrument developed under Michigan's Revised School Code); (2) the method to be used to monitor the public school academy's compliance with applicable laws and its performance in meeting its educational objectives; (3) a description of the process for amending the contract during the term of the contract; (4) all the matters required to be included in the application to an authorizing body for a charter contract; (5) for public school academies authorized by a school district, an agreement that the employees of the public school academy will be covered by any collective bargaining agreements that apply to the employees of the school district; (6) procedures and grounds for revoking the contract; (7) a description and address of the physical plant in which the public school academy will be located; and (8) requirements and procedures for financial audits, which are to be conducted at least annually by a certified public accountant in accordance with generally accepted governmental auditing principles.

Among the laws with which public school academies must comply are Michigan's Revised School Code, Michigan's State School Aid Act, the Open Meetings Act, the Freedom of Information Act, the Uniform Budgeting and Accounting Act, the Revised Municipal Finance Act, and other state and federal laws applicable to public school academies.

Public school academies and their board members, officers and staff have governmental immunity. Public school academies may acquire, hold, and own in their own name buildings and other property for school purposes and may condemn property if certain conditions are met. Public school academies are exempt from all taxation on their earnings and property. They may not levy ad valorem property taxes or any other taxes for any purpose.

***Tuition and Admission at Public School Academies (M.C.L. § 380.504)***

A public school academy may not charge tuition and may not discriminate in its pupil admissions policies or practices based on race, disability, religion, gender, test scores, intellectual or athletic ability, measures of achievement or aptitude, or any other basis prohibited by law. However, a public school academy may predetermine the ages, grades, and number of students it will serve. If the number of applications to enroll in the public school academy exceeds the school's enrollment capacity, the public school academy shall use a random selection process for selecting pupils. Public school academies may operate any grades from kindergarten through grade 12 and may also operate early childhood education programs, an adult basic education program, adult high school completion program, or general educational development testing preparation program.

***Additional Powers of Public School Academies (M.C.L. § 380.504a, 380.506)***

In addition to other powers, a public school academy may take action to carry out its educational mission. For that purpose, a public school academy has the power to: (i) sue and be sued, (ii) acquire, hold, and own in its own name real and personal property for educational purposes, and sell or convey the property, (iii) receive, disburse, and pledge funds for lawful purposes, (iv) enter into binding legal agreements with persons or entities as necessary for the operation, management, financing, and maintenance of the public school academy, (v) incur temporary indebtedness as authorized by state statutes, (vi) solicit and accept grants or gifts for educational purposes and establish non-profit corporations for the purpose of assisting the public school academy in furtherance of its public purposes, and (vii) borrow money and issue bonds in accordance with relevant state statutes.

Bonds issued by a public school academy are full faith and credit obligations of the public school academy, pledging the general funds or any other money available for such a purpose. Bonds issued by a public school academy are subject to the revised municipal finance act, 2001 PA 34, M.C.L. §§ 141.2101 to 141.2821.

Public school academies, with the approval of the authorizing body, may employ or contract with personnel as necessary for the operation of the public school academy, prescribe their duties, and fix their compensation.

***Teachers and Noncertified Individuals (M.C.L. § 380.505)***

Teachers in public school academies are subject to the same certification requirements as traditional public schools, with two exceptions. First, public school academies authorized by a state university may use as a classroom teacher a faculty member who is employed full-time by the university and has institutional tenure or is designated as being on tenure track. Second, public school academies authorized by a community college may use as a classroom teacher a full-time faculty member who has at least five years experience in teaching the subject matter he or she is teaching at the public school academy. Public school academies may develop and implement new teaching techniques or make significant revisions to known techniques. Public school academies must report these practices to the authorizing body and the state board.

THE CHARTER SCHOOL LAWS AND SCHOOL AID ACT ARE SUBJECT TO MODIFICATION BY THE MICHIGAN LEGISLATURE. THE AMOUNT, TIMING AND METHODOLOGY FOR CALCULATION OF STATE SCHOOL AID HAS CHANGED SIGNIFICANTLY IN RECENT YEARS, AND IS SUBJECT TO FUTURE LEGISLATIVE CHANGES.

## **EXHIBIT D**

### **SUMMARY OF CERTAIN TERMS OF THE PRINCIPAL FINANCING DOCUMENTS**

The following is a summary of certain provisions of the Master Indenture, the Supplemental Indenture, the Lease Financing Agreement and of definitions of certain terms used therein and in this Official Statement. Reference is made to the Master Indenture, the Supplemental Indenture and the Lease Financing Agreement for a complete statement of the provisions of such documents. Until the dated delivery of the Bonds, the provisions of these documents are subject in all respects to changes, deletions and variations therein and thereafter to supplement and amendment in accordance with these terms. The Master Indenture and the Supplemental Indenture are sometimes hereinafter called the “Indenture” and the “Related Supplemental Indenture for the Bonds,” respectively. Except as otherwise defined herein, the terms defined or used in this summary which are defined in the Indenture or the Financing Agreement shall have the same meanings herein as in those respective documents.

### **DEFINITIONS OF CERTAIN TERMS**

**“Academy” or “Public School Academy”** means a public school academy created pursuant to the Revised School Code.

**“Authority”** means the Michigan Public Educational Facilities Authority or any board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Authority by the Enabling Legislation shall be given by law.

**“Benefiting Entity”** means a nonprofit corporation, trust or similar entity that receives a loan from the Authority for the benefit of a Public School Academy.

**“Bond Servicing Costs”** means, with respect to each Class of Bonds Outstanding, the fees, expenses and charges, other than those constituting Costs of Issuance, from time to time payable to the Authority, Trustee, Paying Agent, Co-Paying Agent, Bond Registrar, Rating Agencies, Bond Counsel, Counsel, accountants, professional accountants, financial advisor, service companies or others and directly related or allocable to such Bonds, and such other fees and expenses as provided in a Supplemental Indenture or Financing Agreement.

**“Bonds”** means the Authority’s Limited Obligation Revenue Bonds issued pursuant to the Indenture. Bonds may be either “bonds” or “notes” as defined in the Enabling Legislation.

**“Class”** means a Class of Bonds. All Bonds shall be given a Class designation by the Resolution and Supplemental Indenture pursuant to which they are issued. Each Class of Bonds shall, except as otherwise provided in a Supplemental Indenture, be separately secured from all other Classes of Bonds issued under the Indenture.

**“Collateral Documents”** means such documents as may be provided as additional security for an Obligation by a Governmental Unit or Benefiting Entity, its incorporating or establishing municipality or other entity designated in a Supplemental Indenture, but only to any extent designated as Collateral Documents in or pursuant to a Supplemental Indenture.

**“Credit Facility”** means a letter of credit line of credit, bond purchase agreement, guarantee of payment issued in favor of the Trustee for the benefit of the Owners of any Bonds and, in each case, any related reimbursement agreement, repayment agreement or similar agreement.

**“Debt Service”** means, with respect to any Bonds as of any Payment Date, the principal, interest and/or Redemption Price payable on such Payment Date.

**“Enabling Legislation”** means the Executive Reorganization Order No. 2002-3, compiled at §12.192 of the Michigan Compiled Laws, 1985 PA 227, and 1984 PA 270, as from time to time amended.

**“Financing Agreement”** means an agreement between the Authority and one or more of the following: an Academy, a Benefiting Entity, a vendor or seller providing for the acquisition of an obligation of a Public School Academy or a loan for the benefit of a Public School Academy.

**“Foundation”** means the Clothilde R. Smith Charitable Foundation, a Michigan nonprofit corporation, or its successors or assigns or any surviving, resulting or transferee entity.

**“Governmental Unit”** means a “governmental unit” as defined in the Enabling Legislation which is also a public school academy within the meaning of the Revised School Code.

**“Lease”** means the lease agreement dated December 1, 2005 between the Foundation and Old Redford Academy covering the Project, as it may be amended from time to time in accordance with its terms.

**“Liquidation Proceeds”** means amounts received by the Trustee (a) in connection with enforcement of any of the remedies with respect to a Municipal Obligation, including the sale thereof, a Financing Agreement, or a Collateral Document after the occurrence of a default which has not been waived or cured, and (b) consisting of insurance or condemnation proceeds deposited into a Revenue Account.

**“Loan”** means a loan to a Benefiting Entity made pursuant to a Financing Agreement.

**“Municipal Obligation”** means an obligation of a Governmental Unit (or an undivided or allocated interest in such obligation) evidencing an obligation of such Governmental Unit to make payments.

**“Obligation”** means collectively and individually, Financing Agreement, Municipal Obligations, and any other Obligations set forth in a Supplemental Indenture.

**“Obligation Payments”** means, with respect to an Obligation, the payments on the Obligation, Liquidation Proceeds with respect to the Obligation and any other amounts payable by a Governmental Unit or Benefiting Entity pursuant to the Municipal Obligation, Financing Agreement or other Obligation, but excluding Fees and Charges except to the extent otherwise provided in a Supplemental Indenture.

**“Owner”** means the registered owner of any Bond.

**“Payment Date”** means an Interest Payment Date, Principal Payment Date or Redemption Date and the date when principal of and/or interest on a particular Bond may be due because of acceleration (if allowed) after an Event of Default.

**“Pledged Funds”** includes, with respect to each Class of Bond, and to the extent provided in the Indenture with respect to such Class, the Related Accounts within the Proceeds Fund, the Reserve Fund and the Revenue Fund created by the Indenture, and all moneys and investments from time to time therein. Pledged Funds does not include the Rebate Fund or the Costs of Issuance Fund created by the Indenture.

**“Related”** means (i) as between Accounts, Accounts established with respect to the same Class of Bonds; (ii) as between Bonds, all Bonds of the same Class; (iii) as between Bonds and Accounts, all Bonds of one Class and all separate Accounts established with respect to the Bonds of that Class; (iv) as between Obligations and Bonds, Bonds of one Class and Obligations made or acquired with proceeds of such Bonds, or otherwise pledged as Security under the Indenture and designated as “Related” to the Bonds of such Class in or pursuant to a Supplemental Indenture; and/or as between Accounts, Bonds, Obligations and an Academy and Authorized Academy Representative as designated in or pursuant to a Supplemental Indenture.

**“Reserve Account”** means, with certain exceptions, the Reserve Account for a Class of Bonds within the Reserve Fund.

**“Reserve Account Requirement”** means, with respect to each Reserve Account, the sum of the Reserve Account Requirements designated in Supplemental Indenture authorizing each Series of Related Bonds. The Reserve Account Requirement for any Reserve Account may be satisfied by (i) cash, (ii) Eligible Investments, (iii) a Reserve Account Security Instrument and/or (iv) any other amounts legally provided for such purposes.

**“Revised School Code”** means the Revised School Code of the State, being Act 451 PA 1976, as from time to time amended, and any successor provision of law.



**“Series of Bonds”** means a Series of Bonds, if any, authorized and so designated by a Supplemental Indenture.

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## **THE MASTER INDENTURE**

### **Indenture Constitutes a Contract**

The Indenture is a contract between the Authority and the Owners of the Bonds. The pledges and agreements made in the Indenture by the Authority are for the benefit and security of the Owners of every Class of Bonds, which, without regard to their time of issuance or maturity, will be of the rank and priority as to other Bonds of the same Class, as expressly provided in the Indenture.

### **Authority Covenants**

The Authority covenants and agrees under the Indenture with the Owners of Bonds as follows:

(a) All representations and covenants of the Authority herein and in any proceeding, document or certification incidental to issuance of the Bonds shall not create a pecuniary liability of the State of Michigan, the Authority or any agency or employee thereof, except to the extent of available Security.

(b) The Authority shall, but only out of the Security, promptly pay the principal and interest on the Bonds at the place, on the dates and in the manner provided in the Bonds. The Authority shall promptly perform and observe all covenants, undertakings and obligations set forth in the Indenture and the Bonds.

(c) The Authority represents that (i) it is duly authorized under the laws of the State of Michigan to issue the Bonds, and to execute, deliver and perform the terms of the Indenture, (ii) all actions on its part for the issuance of the Bonds and the execution and delivery of the Indenture have been duly taken and (iii) the Bonds upon issuance, and the Indenture upon delivery, shall be valid and enforceable obligations of the Authority in accordance with their terms.

(d) All books and documents in the possession of the Authority relating to the Bonds shall at all reasonable times be open to inspection by the Trustee and/or its attorneys and agents.

(e) No member, officer or employee of the Authority, including any person executing the Indenture or Bonds, shall be liable personally on the Bonds or subject to any personal liability for any reason relating to the issuance of the Bonds.

(f) The Trustee may take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of purchases made by the Authority which shall affect the prompt collection of payments under the Financing Agreement and Municipal Obligations, including the enforcement of the Financing Agreement and Municipal Obligations. Whenever it shall be necessary in order to protect and enforce the rights of the Authority or the Trustee under a Financing Agreement or Municipal Obligation and to protect and enforce the rights and interests of Owners under the Indenture, the Authority, at the request of the Trustee and upon indemnification satisfactory to the Authority, shall commence proceedings against the Benefiting Entity or Governmental Unit in default under the provisions of Financing Agreement or Municipal Obligations in protection and enforcement of its rights under such Financing Agreement or Municipal Obligations and bring appropriate action to collect any unpaid balance due on the Financing Agreement or Municipal Obligations.

### **Issuance of Bonds**

Bonds of the Authority known as “Limited Obligation Revenue Bonds” may be issued without limit as to amount (except as provided in the Indenture or limited by law), in order to make Loans, acquire Municipal Obligations issued by one or more Governmental Units, fund part or all of a Reserve Account, provide funds for the payment of capitalized interest on Bonds, pay Costs of Issuance, refund other Bonds issued under the Indenture and

for other purposes which may be specified in a Supplemental Indenture. Only Loans to Benefiting Entities or Municipal Obligations issued by Governmental Units shall be made or acquired with proceeds of Bonds.

Each Series of Bonds shall be designated as of a specified Class by the Supplemental Indenture authorizing the issuance of the Bonds or by an Authorized Officer of the Authority. The Bonds of each Series shall have that priority of payment with respect to other Series of Bonds of the same Class as specified in the Supplemental Indenture pursuant to which all Outstanding Bonds of such Class have been issued. No Series of Bonds shall be issued under the Indenture which have not been identified to the Trustee as Bonds which are entitled to the benefit of the Supplemental Reserve Agreement.

### **Security**

All Bonds and the interest thereon shall be a limited obligation of the Authority. Bonds of each Class shall be secured solely by the Security (as defined below) pledged thereto and any other security provided by the Governmental Unit or Benefiting Entity. No Owners of any Class of Bonds shall have any claim to the Security pledged to any other Class of Bonds.

The "Security" for the Bonds of each Class shall consist of (i) Pledged Funds and (ii) the Authority's rights and interest in Related Obligation Payments with respect to Related Obligations evidencing the same and related Collateral Documents, subject to the reservation by the Authority of the rights to indemnification and to make all determinations and approvals and receive all notices accorded to it under such Obligations and Collateral Documents.

Each Series of Bonds shall have the priority with respect to the Security specified by each Supplemental Indenture pursuant to which all Outstanding Bonds of the same Class have been issued.

The Authority also may pledge or grant a security interest in Security to secure its obligations under letters of credit, lines of credit, surety bonds, reimbursement agreements and similar arrangements entered into or obtained by the Authority to provide credit enhancement or liquidity for the payment of any Outstanding Bond, all as authorized by a Supplemental Indenture.

### **Release of Security**

With respect to any Class of Bonds, the Trustee shall if required to do so by an Obligation or Collateral Document release any particular Security, including rights and interests in Collateral Documents, from the Indenture, free and clear of the liens and pledges created thereby.

### **Additional Bonds**

No additional Series of Bonds of a Class shall be issued after the initial Series of Bonds of that Class unless:

- (i) the principal amount of the additional Bonds to be issued, together with the principal amount of the Bonds previously issued, will not exceed in aggregate principal amount any limitation then imposed by law;
- (ii) the amount on deposit provided with respect to the Related Reserve Account upon the issuance of such additional Bonds shall not be less than the Reserve Account Requirement applicable thereto;
- (iii) the priority of the Bonds is permitted by the Supplemental Indenture authorizing all Outstanding Bonds of the same Class.

The Authority expressly reserves the right to (i) issue Bonds of a Class not previously issued under the Indenture and (ii) adopt other resolutions or indentures authorizing the issuance of bonds for purposes similar or dissimilar to the purposes for which Bonds may be issued under the Indenture so long as such bonds are not a charge or lien on the Security for any Bonds, not otherwise permitted by the Indenture.

## **Refunding Bonds**

The Authority may issue Refunding Bonds for the purpose of refunding or advance refunding all or any portion of the Bonds under a Supplemental Indenture or a separate resolution or indenture from the Indenture. Such Refunding Bonds may be secured as provided in the Supplemental Indenture or other resolution or indenture authorizing their issuance, and such security may include the Security for the Bonds to the extent that any Bonds secured thereby have been defeased pursuant to the Indenture.

## **Requirements of Municipal Obligations**

Each Financing Agreement and each Municipal Obligation acquired with proceeds of the Bonds shall conform to the terms, conditions and limitations from time to time established as a condition of eligibility. All Municipal Obligations must be in Fully Marketable Form (as defined below) and all Governmental Units and Benefiting Entities, as applicable, shall deliver or shall have delivered the duly authorized and executed Financing Agreement or Municipal Obligations, Program Documents and Collateral Documents, if any, together with such other information, certificates, opinions, documents and instruments as may be required. Only Loans to Benefiting Entities or Municipal Obligations issued by Governmental Units shall be made or acquired with proceeds of Bonds.

"Fully Marketable Form" shall mean with respect to a Municipal Obligation "Fully Marketable Form" as defined in the Enabling Legislation from time to time.

## **Pledge and Establishment of Funds and Accounts**

With respect to each Class of Bonds, the Pledged Funds are pledged to the Trustee for the payment of the principal and Redemption Price, if applicable, of and interest on each Class of Bonds, and, with respect to each Series of Bonds for which a Credit Facility has been obtained, secondarily (except for the priority described below) to the related provider of the Credit Facility for payment of amounts due to such provider with respect to the related Credit Facility, in accordance with the Indenture. The provider shall have that priority to the Security set forth by the Supplemental Indenture pursuant to which the Credit Facility is obtained. This pledge shall be valid and binding from and after the date of adoption of the Indenture and the Pledged Funds shall immediately be subject to the lien of such pledge without any physical delivery, recordation of the Indenture or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof.

The following special funds and accounts may be established and maintained in trust by the Trustee (or in some instances, the Authority or its designee) pursuant to the Indenture:

### **Reserve Fund**

Within the Reserve Fund there may be established separate Reserve Accounts (to be separately designated by Supplemental Indenture or by the Trustee), one for each Class of Bonds. Reserve Accounts which secure one or more Series of Bonds but not all Series of Bonds of a Class may also be established as provided by a Supplemental Indenture. The Reserve Fund and all Reserve Accounts therein shall be held in trust by the Trustee.

### **Proceeds Fund**

Within the Proceeds Fund there may be established separate Proceeds Accounts (each to be separately designated by Supplemental Indenture or by the Trustee), one for each Class of Bonds. The Proceeds Fund and all Accounts therein shall be held in trust by the Trustee.

### **Revenue Fund**

Within the Revenue Fund there shall be established separate Revenue Accounts (each to be separately designated by Supplemental Indenture or by the Trustee from time to time) one for each Class of Bonds. The Revenue Fund and all Revenue Accounts therein shall be held in trust by the Trustee.

## **Rebate Fund**

Unless otherwise provided in a Supplemental Indenture, the Rebate Fund shall not be established or maintained. Within the Rebate Fund, if established, there shall be established separate Rebate Accounts, if any, designated by a Supplemental Indenture or by a Non-Arbitrage and Tax Compliance Certificate. The Rebate Fund and all Rebate Accounts therein shall be held in trust by the Trustee.

## **Costs of Issuance Fund**

Pursuant to the Supplemental Indenture, one or more Costs of Issuance Accounts (to be designated by a Supplemental Indenture or by the Trustee) may be established as determined to be necessary or required. The Costs of Issuance Fund and all Costs of Issuance Accounts therein shall be held in trust by the Trustee.

The Trustee is authorized to establish and maintain such other funds and other accounts and subaccounts in the Funds and Accounts described above as may be necessary or required to provide for compliance with the covenants of the Indenture.

The Trustee is authorized to close any Fund, Account or subaccount established by the Indenture or a Supplemental Indenture to the extent such Fund, Account or subaccount is determined by the Trustee to be unnecessary and thereafter to reopen and reclose such Fund, Account or subaccount as the Trustee shall determine.

## **Investment of Funds**

Except as otherwise provided in a Supplemental Indenture, moneys in the Costs of Issuance Fund may be invested at the oral direction (promptly confirmed in writing) of the Related Authorized Academy Representative by the Trustee in any investment permitted by the Enabling Legislation, and moneys in each Account of the Proceeds Fund, the Reserve Fund, the Revenue Fund, and the Rebate Fund shall be invested by the Trustee at the oral direction (promptly confirmed in writing) of the Authorized Academy Representative in Eligible Investments, the maturity, redemption date or purchase date at the option of the holder of which shall coincide as nearly as practicable with the times at which moneys are needed for the purposes of such Fund or Account. Obligations purchased as an investment of moneys in any Fund or Account held by the Trustee under the Indenture shall be deemed at all times to be a part of such Fund or Account; provided, that the income or interest earned by, or increment to, any Fund or Account shall be transferred as provided in the Indenture.

## **Amounts Remaining in Funds and Accounts**

Any amounts remaining in any Fund or Account after full payment of the Bonds and any Reimbursement Agreement or Credit Facility secured by such Fund or Account or provision for payment thereof and all Bond Servicing Charges have been paid, shall be distributed by the Trustee to the Related Authorized Academy Representative to be used for any Authorized Academy Purpose or as otherwise provided in a Supplemental Indenture.

## **Events of Default and Remedies**

Each of the following events is an “Event of Default” under the Indenture:

(a) Default in the payment of Debt Service on any Bond on any Payment Date, provided that an Event of Default shall be deemed to exist only with respect to those Bonds of the same Class as the Bond with respect to which such failure occurred; or

(b) With respect to each Class of Bonds, the Authority shall default in the performance or observance of any other of the covenants, agreements or conditions on its part in the Indenture, continuance of such default for a period of 90 days after written notice thereof to the Authority from the Trustee or the Owners of not less than 51% in principal amount of the Outstanding Bonds of such Class.

Except as otherwise provided in a Supplemental Indenture, with respect to each Class of Bonds:

(a) Upon the happening and continuance of any Event of Default, the Trustee may:

(i) by mandamus or other suit, action or proceedings at law or in equity, enforce the rights of the Owners and require the Authority to carry out any other agreement with Owners and to perform its duties under the Enabling Legislation;

(ii) bring suit upon the Bonds;

(iii) by action or suit, require the Authority to account as if it were the trustee of an express trust for the Owners of the Bonds;

(iv) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds;

(v) require the Authority to enforce the rights of the Authority under Obligations or, if not prohibited by a Supplemental Indenture, to sell the Obligations;

(vi) bring an action or suit to obtain any other remedy available at law or equity; or

(vii) declare all Bonds of the Class with respect to which an Event of Default is deemed to exist due and payable; and if all defaults shall have been cured, then, with the written consent of the Owners of not less than 51% in principal amount of the Outstanding Bonds of such Class, annul such declaration and its consequences.

The Trustee shall give notice of any Event of Default to the Authority as promptly as practicable after the occurrence of an Event of Default becomes known to the Trustee and shall give notice in writing to the Governor of the State, the State Treasurer, the Attorney General of the State, each Authorized Academy Representative and the Authority not less than thirty days prior to declaring the principal of any Bonds due and payable after an Event of Default.

In the enforcement of any remedy under the Indenture with respect to a Class of Bond, the Trustee shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and any time remaining, due from the Authority for principal, interest or otherwise, under the Indenture or the Bonds, and unpaid, together with any and all costs and expenses of collection and of all proceedings under the Indenture and the Bonds, without prejudice to any other right or remedy of the Trustee or of the Owners, and to recover and enforce judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from the Security, in any manner provided by law, the moneys adjudged or decreed to be payable.

With respect to Bonds of each Class, all moneys received by the Trustee pursuant to any right given or action taken under the Indenture, including by virtue of action taken under provisions of any Bond or Obligation, shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and the expenses, liabilities and advances incurred or made or to be incurred or made by the Trustee, be applied, along with any other moneys available for such purposes, unless the principal of all the Bonds of such Class shall have become due and payable, as follows:

**FIRST** - To the payment to the persons entitled thereto of installments of interest in the order of maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment to the persons entitled thereto, without any discrimination or privilege;

**SECOND** - To the payment to the persons entitled thereto of the unpaid principal of any Bonds which shall have become due at stated maturity or pursuant to a call for redemption (other than Bonds called for redemption for the payment of which moneys are held pursuant to the Indenture), in the order of their due dates and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the persons entitled thereto without any discrimination or privilege;

THIRD - To be held for the payment of Bond Servicing Costs to the persons entitled thereto as the same shall become due and payable pursuant to the Indenture;

If the principal of all the Bonds of any Class have become due, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon such Bonds and amounts payable as Bond Servicing Costs, with principal and interest to be paid first without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege, and then amounts payable as Bond Servicing Costs.

Whenever moneys are to be so applied by the Trustee pursuant to the Indenture, such moneys shall be applied by the Trustee at such times as the Trustee in its sole discretion shall determine; the deposit or other setting aside of such moneys in trust for the proper purpose shall constitute proper application by the Trustee; and the Trustee shall incur no liability whatsoever to the Authority, to any Owner or to any other person for any delay in applying any such moneys, so long as the Trustee acts with reasonable diligence, having due regard for the circumstances, and ultimately applies the same in accordance with the Indenture. Whenever the Trustee shall exercise such discretion in applying such moneys, it shall fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Trustee shall give such notice as it may deem appropriate for the fixing of any such date. The Trustee shall not be required to make payment of principal to any Owners unless such Owner's Bond or Bonds shall be presented to the Trustee.

Anything in the Indenture to the contrary notwithstanding, the Owners of 51% in principal amount of the Bonds Outstanding of any Class shall have the right, by an instrument or concurrent instruments in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings with respect to Bonds of such Class to be taken by the Trustee, provided that such direction shall not be otherwise than in accordance with law and the Indenture and any applicable Supplemental Indenture, and that the Trustee shall have the right to decline to follow any such direction which in the opinion of the Trustee would be unjustly prejudicial to Owners not parties to such direction.

With respect to Bonds of any Class, no Owner of any Bond shall have any right to institute any suit, action or proceeding, or for the enforcement of any right, under the Indenture or any right under law unless such Owner shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, shall have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, shall have accrued, and shall have afforded the Trustee a reasonable opportunity to proceed to exercise the powers granted in the Indenture or under the law or to institute such action, suit or proceeding in its name and unless there shall have been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall have refused or neglected to comply with such request within a reasonable time; and such notification, request and offer of indemnity are, at the option of the Trustee, conditions precedent to the execution of the powers under the Indenture or for any other remedy thereunder or under law. No one or more Owners secured by the Indenture shall have any right in any manner whatever to affect, disturb or prejudice the security of the Indenture, or to enforce any right thereunder or under law with respect to the Bonds or the Indenture, except in the manner provided in the Indenture, and all proceedings shall be instituted and maintained in the manner therein provided and for the benefit of all Owners of the Outstanding Bonds of each Class. Notwithstanding the foregoing, the obligation of the Authority shall be absolute and unconditional to pay the principal of and interest on the Bonds to the respective Owners thereof at the respective due dates thereof from the Security and nothing in the Indenture shall affect or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

With respect to the Bonds of each Class, the Trustee shall give to the Owners of such Bonds notice of each Event of Default respecting such Bonds known to the Trustee as soon as reasonably practicable after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of Event of Default shall be given by the Trustee by mailing written notice thereof by first class mail to all registered Owners of such Bonds, as the names and addresses of such Owners appear upon the books for registration and transfer of Bonds as kept by the Bond Registrar and Paying Agent.

## **Defeasance**

Any Bond will be deemed paid within the meaning of the Indenture when (A) payment of the principal or Redemption Price, if applicable, of such Bond, plus interest thereon to the due date thereof (whether such due date is by reason of maturity or upon redemption), either has been (1) made or caused to be made in accordance with the terms thereof, or (2) provided for by irrevocably depositing with the Trustee or an escrow agent meeting the qualifications set forth for a successor Trustee in trust and irrevocably setting aside exclusively for such payment sufficient moneys to make such payment and/or Government Obligations maturing as to principal and interest in such amounts and at such times as will insure the availability of sufficient moneys to make such payments, and (ii) all necessary and proper Bond Servicing Costs pertaining to the Bonds with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Trustee. When a Bond is deemed paid under the Indenture, as described above, such Bond will no longer be secured by or entitled to the benefits of the Indenture, except with respect to provisions relating to the payment of the principal or Redemption Price of and interest on such Bond from such moneys or Government Obligations and the related duties of the Bond Registrar and Paying Agent or the Trustee.

## **Supplemental Indentures Not Requiring Consent of Owners**

The Authority may, without the consent of or notice to any of the Owners, enter into at any time any Supplemental Indenture for any one or more of the following purposes, and any such Supplemental Indenture shall become effective in accordance with its terms upon due execution and delivery of the same by the Trustee and the Authority:

- (a) to cure any ambiguity or formal defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Owners any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Owners or the Trustee;
- (c) to subject to the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture or any Supplemental Indenture in such manner as to permit the qualification thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the Indenture or any Supplemental Indenture such other terms, conditions and provisions as may be permitted by such Trust Indenture Act or similar federal statute;
- (e) to evidence the appointment of a separate or the succession of a new Trustee, Bond Registrar and Paying Agent, or Co-Paying Agent;
- (f) to satisfy the requirements of Fitch, Moody's or S&P or another Rating Agency in order to obtain, maintain or improve the rating on any of the Bonds;
- (g) to provide for the orderly sale or remarketing of Bonds, making of a Loan or acquisition of Municipal Obligations;
- (h) to maintain the exclusion of interest on any of the Bonds from gross income for federal income tax purposes, to prevent interest on any of the Bonds from being subject to any alternative minimum tax (other than an alternative minimum tax which applies to all tax-exempt bonds generally) and to maintain the exemption of any of the Bonds and the interest thereon from State taxation;
- (i) to provide for additional or different Classes of Bonds as authorized in the Indenture;
- (j) to issue Refunding Bonds pursuant to the Indenture;
- (k) to provide for the issuance of any Series of Bonds and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed;

- (l) to provide for the issuance of Bonds of any Class which do not bear interest or bear interest at variable interest rates, or with variable interest periods or subject to mandatory purchase at the option of the Owner thereof;
- (m) to provide for Credit Facilities;
- (n) to provide for the purchase or acquisition of one or more Reserve Account Security Instruments;
- (o) to effect any other changes in the Indenture which, in the judgment of the Trustee, upon advice of Bond Counsel and such other consultants or professionals as the Trustee deems appropriate, are not to the prejudice of the Authority, the Trustee or the Owners;
- (p) to accomplish, implement, or give effect to any other action which is authorized or required by the Indenture;
- (q) to redesignate the Class designations of any or all Bonds, provided that (i) an Authorized Academy Representative has confirmed in writing with the applicable Rating Agencies that such redesignation shall not reduce or eliminate the then current rating by any Rating Agency on any Outstanding Bonds, and (ii) the Trustee shall have received an opinion of Bond Counsel that such redesignation is permitted under the Indenture and any applicable federal and state laws and regulations.

#### **Supplemental Indentures Requiring Consent of Owners**

Excluding Supplemental Indentures described in the above paragraph and subject to the terms and provisions described in this paragraph, and not otherwise, the Owners of not less than a majority in aggregate principal amount of the Bonds Outstanding of any Class shall have the right, from time to time, anything contained in the Indenture to the contrary notwithstanding, to consent to and approve the adoption by the Authority and the acceptance by the Authority of such other indenture or indentures supplemental to the Indenture as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions affecting or relating to such Class of Bonds contained in the Indenture or in any Supplemental Indenture; provided, however, that nothing contained in this paragraph shall permit, or be construed as permitting, other than in accordance with the Indenture and the Bonds with respect to each Class of Bonds, (A) without the consent of the Owners of all then Outstanding Bonds of such Class, (i) an extension of the Principal Payment Date or the Interest Payment Date on any Bond of such Class, or (ii) a reduction in the principal amount of any Bond of such Class or the rate of interest thereon, or (iii) a privilege or priority of any Bond or Bonds of a Class over any other Bond or Bonds of the same Class not otherwise provided for under the Indenture, or (iv) a reduction in the aggregate principal amount of the Bonds required for consent to such Supplemental Indenture, or (v) the creation of any lien other than a lien securing all of the Bonds of the same Class at any time Outstanding with the same priority otherwise provided for under the Indenture, or (B) any modification of the trusts, powers, rights, obligations, duties, remedies, immunities and privileges of the Trustee without the written consent of the Trustee.

If at any time the Authority shall request the Trustee to accept any such Supplemental Indenture, the Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed Supplemental Indenture to be mailed by registered or certified mail to each Owner of a Bond of the affected Class at the address shown on the registration books. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that copies thereof are on file at the designated office of the Trustee for inspection by all Owners. If, within 60 days, or such longer period as shall be prescribed by the Authority, following the mailing of such notice, the Owners of not less than two-thirds in aggregate principal amount of the Bonds of each Class affected by such Supplemental Indenture Outstanding at the time of the adoption of any such Supplemental Indentures shall have consented to and approved the adoption thereof as provided in the Indenture, no Owner of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof.



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## **THE SUPPLEMENTAL INDENTURE**

The Series 2005 Bonds are created by a Related Supplemental Indenture for the Series 2005 Bonds. The Related Supplemental Indenture specifies the Class and Series designations applicable to the Series 2005 Bonds (Class Old Redford, comprised of Series 2005A and Series 2005B). The Related Supplemental Indenture specifies the purposes for the issuance of the Series 2005 Bonds and establishes a related Class Account in each of the Proceeds Fund, the Reserve Fund and the Revenue Fund.

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## **THE FINANCING AGREEMENT**

### **Incorporation of the Lease; Lease Payments**

The Lease is incorporated in the Financing Agreement by reference. To the extent that a conflict in terms exists between the Financing Agreement and the Lease, the specific terms of the Financing Agreement shall govern.

Old Redford Academy agrees to make monthly installment payments of annual rental not less than the Lease Payments therein specified on the Payment Dates therein specified. Old Redford Academy agrees it will not sell, assign title to, lease, or obtain further financing with respect to the leased property except with the written permission of the Authority while Lease Payments remain outstanding under the Financing Agreement. Old Redford Academy agrees that the Lease term is at least until the due date of the final Lease Payment. The Foundation and Old Redford Academy agree that the Authority may pledge the Financing Agreement as security for its obligations to pay Series 2005 Bonds

In addition, Old Redford Academy agrees that if at any time moneys are withdrawn from the Old Redford Reserve Account to pay principal or interest on the Series 2005 Bonds, Old Redford Academy shall promptly, not later than 120 days thereafter, deposit with the Trustee a sum sufficient to restore the Old Redford Reserve Account to the Reserve Account Requirement.

### **Assignment to Authority**

The Foundation irrevocably assigns to the Authority that portion of the payments owing to the Foundation under the Lease equal to the Lease Payments, in consideration of the Authority's directing the Trustee to disburse from the Class Old Redford Proceeds Account under the Indenture the lesser of the amounts on deposit therein, or the Project Costs, as provided in the Financing Agreement. Old Redford Academy's obligation to the Authority is an absolute and unconditional general obligation of Old Redford Academy and shall remain in full force and effect until the amounts owed under the Financing Agreement shall have been paid by Old Redford Academy to the Authority.

The Authority has no liability for the performance of any obligations of Old Redford Academy or the Foundation except as expressly set forth in the Financing Agreement. Old Redford Academy represents and warrants that the above-described assignment to the Authority does not violate Old Redford Academy's charter, and the Foundation represents and warrants that the above-described assignment to the Authority does not violate the Foundation's Articles of Incorporation or Bylaws, or any law or any agreement, contract, or loan agreement to which it is a party.

### **Payment Provisions**

Old Redford Academy agrees to pay to the Authority the Lease Payments at specified dates in specified amounts. The Academy has the option to prepay all or a portion of the Lease Payments in connection with the redemption or defeasance of related Bonds.

Old Redford Academy shall make all payments due under the Financing Agreement at the designated corporate trust office of the Trustee. Old Redford Academy further agrees to deposit with the Trustee all payments

due in immediately available funds. Old Redford Academy covenants and agrees that its obligations to make such payments are obligations incurred with the Authority under the State School Aid Act and may be enforced by the Trustee on behalf of the Authority.

### **Payment General Obligation**

The obligation of Old Redford Academy to pay Lease Payments is a general obligation of Old Redford Academy. Old Redford Academy agrees to include in its budget and pay each year, until the Financing Agreement is paid in full, such sums as necessary each year to make payments of the Lease Payments and any required additional payments, when due.

### **State Aid Pledge**

Old Redford Academy pledges to pay its Lease Payments and all other amounts required by the Financing Agreement from its State Aid to be allocated to it and payable to its Authorizing Body (the "Pledged State Aid"). Unless otherwise agreed in writing by the Authority, 97% of each installment of State School Aid (such monies to be used to pay the Lease Payments when due) shall, pursuant to the agreement of the Authorizing Body, be transmitted directly by the State Treasurer to the Authority's Depository commencing on or before January 20, 2006, and thereafter on or before the 20th of each February, March, April, May, June, July, August, October, November, December thereafter (each a "Payment Date"); provided however, that if the State School Aid Act shall be modified to provide for a schedule of School Aid payments materially different from that now in effect, the Authority, by written notice to the Trustee, the State Treasurer, the Foundation, Old Redford Academy, the Authority's Depository and the Authorizing Body, may designate different payment dates to provide for timely receipt of Lease Payments consistent with such revised School Aid payment schedule which shall thereupon be and become the "Payment Dates." If the Payment Date falls on a Saturday, Sunday or legal holiday, the Lease Payment shall be due on the next preceding regular business day. The Lease Payment to the Authority shall be made first from the State Aid allocated to Old Redford Academy during the month of the Lease Payment. If, for any reason, the State Aid allocated to Old Redford Academy during the month of the Lease Payment is insufficient to pay the Lease Payment, then in that event, Old Redford Academy pledges to use any and all other available funds to meet the Lease Payment obligation. If on any due date for any Lease Payment, the funds with the Authority's Depository are insufficient to pay the Lease Payment, then Old Redford Academy, pursuant to Section 17a(3) of the State School Aid Act to the extent necessary to meet the payment obligation, assigns to the Authority and authorizes and directs the State Treasurer to intercept and/or advance not to exceed 97% of any payment which is dedicated for distribution or for which the appropriation authorizing payment has been made under the State School Aid Act; and in such event pursuant to Section 17a(3) of the State School Aid Act, the Authority is authorized, pursuant to the agreement of the Authorizing Body, to intercept and/or seek an advancement of 97% of the Pledged State Aid to be allocated or distributed to the Authorizing Body with respect to Old Redford Academy. The Trustee on behalf of the Authority shall immediately notify (or cause notice to be given to) Old Redford Academy and the Authorizing Body that it will immediately commence to intercept and/or receive an advancement of the Pledged State Aid and beginning immediately the Authority shall intercept 97% of the Pledged State Aid to be distributed to the Authorizing Body with respect to Old Redford Academy. The foregoing payments are subject in all respects to the limitation confirmed in the Revised School Code that no more than 20% of the State Aid payments received by a public school academy in each fiscal year may be used for such payment.

The intercepted and/or advanced amount shall be applied on the following priority basis: (i) the amount required to pay the Lease Payment when due shall be held by the Authority's Depository for such purpose, (ii) any other amounts owing to the Authority under the Lease or the Financing Agreement, and (iii) to the extent in excess of the amount required to make payment in full of the Lease Payment, any amounts remaining to be immediately distributed to the Authorizing Body. The process set forth above shall continue until sufficient funds are deposited with the Trustee to pay all Lease Payments. Section 17a(3) of the State School Aid Act does not require the State to make an appropriation to any authorizing body, public school academy, other school district or intermediate school district and shall not be construed as creating an indebtedness of the State.

The above-described pledge of State Aid is subject to the reservation by Old Redford Academy of the right to make additional pledges of State Aid to secure other obligations as provided in the Financing Agreement.

### **Assignment by Authority**

The Foundation and Old Redford Academy each consent to any assignments at any time made by the Authority of the Authority's rights under the Financing Agreement and acknowledge that no further action or consent by Old Redford Academy or the Foundation is necessary to effectuate such an assignment.

### **Obligations of the Foundation and Academy Unconditional**

The obligation of Old Redford Academy to pay the Lease Payments shall be an absolute and unconditional general obligation of Old Redford Academy and shall not be subject to diminution by set-off, recoupment, counterclaim, abatement or otherwise. Until the Series 2005 Bonds have been fully paid (or provision made therefor) in accordance with the Indenture, Old Redford Academy (i) shall not suspend or discontinue any Lease Payments, (ii) shall perform and observe all of its other obligations contained in the Financing Agreement and (iii) shall not terminate the Financing Agreement for any cause, including, without limiting the generality of the foregoing, defect in title to the Project, failure to complete any part of the Project, any acts or circumstances that may constitute failure of consideration, destruction of, damage to or condemnation of any part of the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of Michigan or any political subdivision of either, or any failure of the Authority to perform and observe any of its obligations arising out of or connected with the Financing Agreement. The Lease Payments are intended to be sufficient for the payment in full of the Series 2005 Bonds, including (i) the total interest to become due and payable on the Series 2005 Bonds to the dates of payment thereof, (ii) the total principal amount of the Series 2005 Bonds, (iii) the redemption premiums, if any, that shall be payable on the redemption of the Series 2005 Bonds prior to their stated payments dates, and (iv) all additional interest, additional principal and any other amounts payable to the Trustee as and when required by the Series 2005 Bonds or the Financing Agreement. In the event, however, of any deficiency in the payment of such amounts regardless of the reason for such deficiency, Old Redford Academy agrees that upon notice of the deficiency from the Trustee or the Authority it shall then immediately pay the amount of the deficiency to the Trustee on behalf of the Authority. These obligations of Old Redford Academy shall survive the termination of the Financing Agreement and shall not be limited by the terms of the Lease.

### **Rebate Payments to United States**

The Foundation and Old Redford Academy, jointly and severally, for itself and for the Authority, each agrees to calculate and make all necessary payments of investment earnings required to be rebated to the United States with respect to the Series 2005A Bonds pursuant to the Indenture and the Non Arbitrage and Tax Compliance Certificate. The Trustee has no duty to confirm the accuracy of the computations made by the Foundation and Old Redford Academy and may assume that the computations are correct. The Foundation and Old Redford Academy shall provide to the Trustee and the Authority evidence of each payment of rebate, if any, within 30 days after such payment.

### **Taxes and Other Costs**

The Foundation and Old Redford Academy, jointly and severally, shall promptly pay when due all lawful taxes and governmental charges of any kind whatsoever, including income, profits, receipts, business, property and excise taxes, with respect to any estate, interest, documentation or transfer in or of the Project, the Financing Agreement or any payments with respect to the foregoing, the costs of all building and other permits to be procured, and all utility and other charges and costs incurred in the operation, maintenance, use, occupancy and upkeep of the Project.

### **Insurance**

Old Redford Academy shall continuously insure, or cause to be insured, against such risks and in such amounts with respect to the Project as are generally insured against by businesses of like size and character, including at least, but not limited to risk property insurance to the extent of the full insurable value of the Project (recognizing that certain portions thereof may not be exposed to certain risks) including coverage for loss or damage by fire, with standard extended coverage, vandalism and malicious mischief endorsements; public liability insurance with reference to the Project; Workers' compensation insurance, if required under Michigan law; or a program of self-insurance complying with the requirements of Michigan law. builder's all risk insurance during the course of

the construction of the Project and during the course of any other construction, renovation or similar undertaking with respect to property covered by the Mortgage; and business interruption insurance covering actual loss in operating revenues in an amount not less than \$\_\_\_\_\_.

All required insurance policies shall be with qualified insurance companies under Michigan law and may be written with exceptions and exclusions comparable to those in similar policies carried by other businesses engaged in public education and located in the State of Michigan. Hazard and public liability insurance policies shall name the Authority and the Trustee as additional insureds as their interests may appear, and the Trustee shall also be named as mortgagee and loss-payee. All insurance claims may be adjusted by Old Redford Academy only, subject to the written approval of the Trustee, which approval shall not be unreasonably withheld, and all insurance proceeds for loss or damage to the Project shall be payable to the Trustee for deposit in the Related Revenue Account or the Related Proceeds Account in accordance with the Indenture. Old Redford Academy shall provide the Authority and the Trustee with certificates of the respective insurers specifying that the required insurance is in force and effect and shall not expire or be canceled or materially modified except upon 30 days' prior written notice to Old Redford Academy, the Authority and the Trustee.

### **Reports and Access to Project**

The Foundation and Old Redford Academy each shall promptly file with the Authority and the Trustee its audited financial statements for each fiscal year, not later than 120 days after the fiscal year end. Subject to reasonable security and safety regulations, the Authority and the Trustee and their authorized agents shall have the right at all reasonable times to enter and inspect the Project.

### **Events of Default**

Any one or more of the following events is an Event of Default under the Financing Agreement:

(a) Failure by Old Redford Academy to make a Lease Payment when due which remains unpaid on September 21 of any year.

(b) Failure by the Foundation or Old Redford Academy to observe and perform any other obligations in the Financing Agreement or in any other related or collateral documents on its part to be performed for 45 days after written notice specifying such failure and requesting that it be remedied, given to the Foundation and Old Redford Academy by the Authority or the Trustee; provided, however, that if the Default cannot be corrected within such period, it shall not constitute an Event of Default if the Default, in the opinion of the Trustee, is correctable without material adverse effect on the Series 2005 Bonds and if corrective action is instituted within such period and diligently pursued until the Default is corrected.

(c) Certain events of dissolution, insolvency, bankruptcy or the like involving the Foundation.

(d) If any representation or warranty made by the Foundation or Old Redford Academy in any document delivered by the Foundation or Old Redford Academy to the purchaser(s) of the Series 2005 Bonds, the Trustee or the Authority in connection with the issuance, sale and delivery of the Series 2005 Bonds is untrue in any material respect.

(e) If the Foundation or Old Redford Academy shall default under any other agreement for payment of money and such default shall not be cured within any period of grace provided in such agreement, if any, or if the Foundation or Old Redford Academy shall assign or convey or attempt to assign or convey any of its rights or obligations under this Agreement except as shall be permitted under the Financing Agreement, provided, however, that the Foundation or Old Redford Academy shall not be in default if it is contesting in good faith any default under any such other agreement for the payment of money, unless in the estimation of the Trustee the security of the Authority under the Financing Agreement is materially endangered.

(f) The occurrence of an Event of Default under the Indenture or the Lease.

## **Reports and Access to Project**

The Foundation and Old Redford Academy each shall promptly file with the Authority and the Trustee its audited financial statements for each fiscal year, not later than 120 days after the fiscal year end. Subject to reasonable security and safety regulations, the Authority and the Trustee and their authorized agents shall have the right at all reasonable times to enter and inspect the Project.

## **Remedies Upon an Event of Default**

Whenever any Event of Default shall have occurred and be continuing, the Authority or the Trustee may take any one or more of the following steps:

- (a) Declare all Lease Payments under the Financing Agreement immediately due and payable;
- (b) Have access to and inspect and make copies of the books and records and any and all accounts, data and income tax and other tax returns of the Foundation and Old Redford Academy, but only insofar as they relate to the Project or the Event of Default and remedying thereof;
- (c) Exercise and enforce all or any of its rights under the security interests granted in the Financing Agreement or any related mortgage or security agreement; and/or
- (d) Petition a court of competent jurisdiction for the appointment of a receiver to take possession of and manage and operate all or any part of the assets of the Foundation and Old Redford Academy for the benefit of the Authority and the Trustee.

No remedy herein conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and in addition to every other remedy existing at law or in equity or by statute.

Any amounts collected pursuant to action taken under the foregoing remedies shall be paid into the Related Revenue Account and applied in accordance with the Indenture, except certain amounts collected for the benefit of the Authority which shall belong to the Authority.

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## **EXHIBIT E**

### **FORM OF OPINION OF BOND COUNSEL**

Michigan Public Educational Facilities Authority  
Treasury Building  
Lansing, Michigan 48909

As Bond Counsel to the Michigan Public Educational Facilities Authority (the "Authority"), we submit this opinion with respect to the issuance by the Authority of its Limited Obligation Revenue Bonds (Old Redford Academy Project) Series 2005A (the "Series 2005A Bonds") and (Old Redford Academy Project) Series 2005B (the "Series 2005B Bonds" and together with the Series 2005A Bonds, the "Bonds").

The Bonds are authorized to be issued by Executive Reorganization Order 2002-3, compiled at MCL § 12.192 of the Michigan Compiled Laws, 1985 PA 227, and 1984 PA 270, as from time to time amended (the "Enabling Legislation"), and by a Master Indenture, dated as of December 1, 2005, as supplemented by a First Supplemental Indenture, dated as of December 1, 2005 (collectively, the "Indenture"), authorizing the Series 2005A Bonds and the Series 2005B Bonds and resolutions adopted by the Authority.

The Bonds are being issued pursuant to the Enabling Legislation and the Indenture to provide funding for the purchase of obligations (the "Municipal Obligations") to be issued by a public school academy in the State of Michigan (the "Governmental Unit") and to a fund reserve account for the Bonds as set forth in the Indenture and a lease financing agreement (the "Financing Agreement") with the Governmental Unit, and to pay costs of issuance of the Bonds. The Bonds are subject to redemption prior to maturity as set forth in the Indenture and the Bonds.

We have examined the constitution and statutes of the State of Michigan (the "State"), the Indenture, the Financing Agreement, a specimen of a Series 2005A Bond and a specimen of a Series 2005B Bond and such other information, records and documents as we deem necessary, including a nonarbitrage and tax compliance certificate of the Authority, and based on such examination we are of the opinion under existing law that:

1. The Authority is duly created and validly existing as a body corporate with the power to issue the Bonds.
2. The Bonds are valid and legally binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and accrued interest thereon solely from the security pledged therefor under the Indenture or otherwise provided by the Governmental Unit. The Bonds are not a general obligation of the Authority. Neither the State nor any political subdivision of the State is obligated to pay the principal of, premium, if any, or interest on the Bonds, and neither the faith and credit nor the taxing power of the State or any political subdivision of the State is pledged to the payment of the principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power.
3. The Authority is authorized to issue additional bonds of equal standing and priority of lien with the Series 2005A Bonds and the Series 2005B Bonds as provided in the Indenture.
4. The interest on the Series 2005A Bonds (a) is excluded from gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, it should be noted that certain corporations must take into account interest on the Series 2005A Bonds in determining adjusted current earnings for the purpose of computing such alternative minimum tax imposed on such corporations. This opinion is subject to the condition that the Authority and the Governmental Unit comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2005A Bonds in order that interest thereon be (or continue to be)

excluded from gross income for federal income tax purposes. The requirements include rebating certain earnings to the United States. Failure to comply with such requirements could cause the interest on the Series 2005A Bonds to be included in gross income retroactive to the date of issuance of the Series 2005A Bonds. The Governmental Unit, on behalf of itself and the Authority, has covenanted to comply with all such requirements to the extent permitted by law. We express no opinion regarding other federal tax consequences arising with respect to the Series 2005A Bonds and the interest thereon.

5. The interest on the Series 2005B Bonds is included in gross income for federal income tax purposes.

6. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State, except estate taxes and taxes on gains realized from the sale, payment or other disposition of the Bonds.

In rendering the foregoing opinion, no opinion is expressed as to the validity or enforceability of the Municipal Obligation or the Financing Agreement, and we are, with your approval, relying upon the opinions of bond counsel to the Governmental Unit as to the matters stated therein.

Enforceability of the Bonds and the Indenture may be subject to the application of general principles of equity including those related to equitable subordination, and to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion in appropriate cases.

We express no opinion concerning the investment quality of the Bonds or the accuracy, completeness or sufficiency of any offering material relating to the Bonds.

Respectfully submitted,

DICKINSON WRIGHT PLLC



## **EXHIBIT F**

### **FORM OF OPINION OF ATTORNEY GENERAL**

Michigan Public Educational Facilities Authority  
Treasury Building  
Lansing, Michigan 48909

In my capacity as Attorney General of the State of Michigan, I have caused to be examined a closing transcript and, in particular, the following documents relating to the issuance by the Michigan Public Educational Facilities Authority (the "Authority") of bonds designated MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY LIMITED OBLIGATION REVENUE BONDS in the aggregate principal amount of \$11,110,000 consisting of the \$10,865,000 (OLD REDFORD ACADEMY PROJECT) SERIES 2005A (the "Series 2005A Bonds") and \$245,000 (OLD REDFORD ACADEMY PROJECT) SERIES 2005B—Federally Taxable (the "Series 2005B Bonds") (collectively, the "Bonds"):

(1) Executive Order 2002-3, the Shared Credit Rating Act, 1985 PA 227, as amended, and the Michigan Strategic Fund Act, 1984 PA 270, as amended (the "Enabling Legislation"), which collectively, created the Authority and empowered it to issue revenue bonds;

(2) a certified copy of Resolution No. 2005-4 adopted by the Authority on November 28, 2005, approving the master indenture dated as of December 1, 2005, and the first supplemental indenture dated as of December 1, 2005 (collectively, the "Indenture"), and authorizing the issuance of the Bonds (the "Resolution");

(3) a Nonarbitrage Certificate of the Authority; and

(4) one Bond of each series, as executed, or specimens thereof.

The Bonds are being issued for the purpose of providing funds which will be used to (i) purchase the obligations (the "Municipal Obligations") of a public school academy (the "Governmental Unit") within the State of Michigan (the "State") as set forth in the Indenture and a financing agreement (the "Financing Agreement") with the Governmental Unit, (ii) make a deposit to the reserve account for the Bonds, (iii) pay capitalized interest on the Series 2005A Bonds, and (iv) pay costs of issuance of the Bonds.

In rendering this opinion, I express no opinion as to the validity or enforceability of the Municipal Obligations, the Financing Agreement or the Mortgage and I am relying upon the opinion of bond counsel to the Governmental Unit as to the matters set forth therein.

Based on the foregoing, I am of the opinion that, under existing law as presently interpreted:

1. The Authority is a public body corporate and politic of the State duly organized and validly existing under the Constitution and the laws of the State, including particularly the Enabling Legislation.

2. The Authority has the power under the laws of the State to adopt the Resolution. The Resolution has been duly adopted by the Authority, is in full force and effect in the form adopted, and is the valid and binding action of the Authority.

3. The Bonds have been duly authorized, executed, and delivered by the Authority and, when duly authenticated, will constitute valid and binding limited obligations of the Authority enforceable in accordance with their terms, payable as to the principal of, premium, if any, and interest thereon solely from the security pledged therefor under the Indenture (which security includes the Municipal Obligations) or otherwise provided by the Governmental Unit.

4. The Bonds are limited obligations of the Authority. The Bonds, including the interest thereon, are not general obligations of the Authority and do not constitute obligations, debts, or liabilities of the State and do not constitute a charge against the general credit of the Authority or a charge against the credit or taxing power of the State. The Authority has no taxing power.

5. The Authority is authorized to issue additional bonds of equal standing and priority of lien with the Bonds, as described in the Bonds and in the Indenture. The Bonds are separately secured from other bonds issued under the Indenture.

6. Interest on the Series 2005A Bonds (i) is excluded from gross income for federal income tax purposes and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. However, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal tax purposes), interest on the Series 2005A Bonds is taken into account in determining adjusted current earnings. This opinion is subject to the condition that the Authority and the Governmental Unit comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Series 2005A Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Governmental Unit, on behalf of itself and the Authority, has covenanted to comply with each such requirement to the extent permitted by law. Failure to comply with certain of those requirements may cause the inclusion of interest on the Series 2005A Bonds in gross income for federal income tax purposes retroactive to the date of issuance of the Series 2005A Bonds. I express no opinion regarding other federal tax consequences arising with respect to the Series 2005A Bonds.

7. Interest on the Series 2005B Bonds is included in gross income for federal income tax purposes. I express no opinion regarding other federal tax consequences arising with respect to the Series 2005B Bonds.

8. The Bonds and the interest thereon are exempt from all taxation provided by the laws of the State except estate taxes and taxes on gains realized from the sale, payment, or other disposition thereof.

Enforceability of the Bonds, the Indenture, and the Resolution may be subject to bankruptcy, insolvency, reorganization, moratorium, and other laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may be subject to the exercise of judicial discretion including the application of general principles of equity.

I express no opinion on the investment quality of the Bonds or the accuracy, completeness, or sufficiency of any offering materials relating to the Bonds.

Sincerely yours,

MIKE COX  
Attorney General

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Molly Jason  
Assistant Attorney General

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Lisa Hagan  
Assistant Attorney General

## **EXHIBIT G**

### **FORM OF CONTINUING DISCLOSURE AGREEMENT**

**\$10,865,000**

**MICHIGAN PUBLIC EDUCATIONAL FACILITIES AUTHORITY  
LIMITED OBLIGATION REVENUE BONDS  
(OLD REDFORD ACADEMY PROJECT), SERIES 2005A**

THIS CONTINUING DISCLOSURE AGREEMENT (“Agreement”) is executed by and between Old Redford Academy, County of Wayne, State of Michigan (the “Academy”) and U.S. Bank National Association, St. Paul, Minnesota (the “Trustee”) in connection with the issuance of the Michigan Public Educational Facilities Authority’s (the “Issuer”) Limited Obligation Revenue Bonds (Old Redford Academy Project), Series 2005A (the “Bonds”). The Bonds are being issued pursuant to a Master Indenture dated as of December 1, 2005, between the Issuer and the Trustee, as supplemented and amended from time to time (the “Indenture”) and a resolution adopted by the Issuer on November 28, 2005, authorizing the issuance, sale and delivery of the Bonds (the “Resolution”). The Academy and the Trustee covenant and agree as follows:

**SECTION 1. Purpose of the Disclosure Agreement.** This Agreement is being executed and delivered by the Academy for the benefit of the Bondholders and in order to assist the Participating Underwriter in complying with the Rule. The Academy acknowledges that this Agreement does not address the scope of any application of Rule 10b-5, promulgated by the SEC pursuant to the 1934 Act, to the Annual Reports or notices of the Listed Events provided or required to be provided by the Academy pursuant to this Agreement.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

(a) “Annual Report” shall mean any annual report provided by the Academy pursuant to, and as described in, Sections 3 and 4 of this Agreement.

(b) “Bondholder” means the registered owner of a Bond or any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of any Bonds (including any person holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bond for federal income tax purposes.

(c) “CPO” means the Central Post Office disclosure facility, which allows municipal issuers to voluntarily file secondary market disclosure documents through the website located at URL [www.DisclosureUSA.org](http://www.DisclosureUSA.org).

(d) “Dissemination Agent” means any agent responsible, if any, for assisting the Academy in carrying out the obligations of the Academy under this Agreement.

(e) “Listed Events” shall mean any of the events listed in Section 5(a) of this Agreement.

(f) “MSRB” shall mean the Municipal Securities Rulemaking Board ([www.msrb.org](http://www.msrb.org)).

(g) “National Repository” shall mean any nationally recognized Municipal Securities Information Repository for purposes of the Rule. A current list of the National Repositories can be found at the U.S. Securities and Exchange Commission website ([www.sec.gov/info/municipal/nrmsir.htm](http://www.sec.gov/info/municipal/nrmsir.htm)).

(h) “1934 Act” shall mean the Securities Exchange Act of 1934, as amended.

(i) “Official Statement” shall mean the final Official Statement for the Bonds dated December 9, 2005.

(j) "Participating Underwriter" shall mean the original underwriter of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

(k) "Repository" shall mean each National Repository and each State Repository.

(l) "Rule" shall mean Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

(m) "SEC" shall mean the Securities and Exchange Commission.

(n) "State" shall mean the State of Michigan.

(o) "State Repository" shall mean any public or private repository or entity designated by the State of Michigan as a state repository for the purpose of the Rule and recognized as such by the SEC. Currently, the following is the State Repository:

Municipal Advisory Council of Michigan  
1445 First National Building  
660 Woodward Avenue  
Detroit, Michigan 48226-3517  
Tel: (800) 337-0696  
Fax: (313) 963-0943  
[www. macmi.com](http://www.macmi.com)

### **SECTION 3. Provision of Annual Reports.**

(a) Each year, the Academy shall provide or cause to be provided, or shall cause the Dissemination Agent to provide or to cause to be provided, on or prior to the 180th day after the end of the fiscal year of the Academy commencing with the fiscal year ending June 30, 2006, to each Repository an Annual Report for the preceding fiscal year which is consistent with the requirements of Section 4 of this Agreement. Currently, the Academy's fiscal year ends on June 30. So long as the SEC continues to authorize the use of the CPO by issuers of municipal securities who make continuing disclosure filings pursuant to the Rule, submission of an Annual Report or other disclosures by the Academy or the Dissemination Agent to the CPO shall fulfill the Academy's obligations under this Section 3. In each case, the Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by specific reference other information as provided in Section 4 of this Agreement; provided, however, that if the audited financial statements of the Academy are not available by the deadline for filing the Annual Report, they shall be provided when and if available, and unaudited financial statements in a format similar to the financial statements contained in the Official Statement shall be included in the Annual Report.

(b) If the Academy is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Academy shall send a notice in a timely manner to each National Repository or the MSRB, and to the State Repository.

(c) If the Academy's fiscal year changes, the Academy shall send a notice of such change to each National Repository or the MSRB, and to the State Repository. If such change will result in the Academy's fiscal year ending on a date later than the ending date prior to such change, the Academy shall provide notice of such change to each National Repository or the MSRB, and the State Repository on or prior to the deadline for filing the Annual Report in effect when the Academy operated under its prior fiscal year. Such notice may be provided to each National Repository or the MSRB, and to the State Repository along with the Annual Report, provided that it is filed at or prior to the deadline described above.

**SECTION 4. Content of Annual Reports.** The Academy's Annual Report shall contain or include by reference the following:

(a) Audited financial statements of the Academy prepared pursuant to State laws, administrative rules and guidelines and pursuant to accounting and reporting policies conforming in all material respects to generally accepted accounting principles as applicable to governmental units such as the Academy.

(b) Additional annual financial information and operating data, if material, and other information pertaining to the Academy of the type set forth in Appendix A of the Official Statement under the section titled "ENROLLMENT – Table 1: Historical and Projected Enrollment" and "STATE AID PAYMENTS".

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Academy or related public entities, which previously have been provided to each of the Repositories or filed with the SEC. If the document included by specific reference is a final official statement, it must be available from the MSRB. The Academy shall clearly identify each document so included by reference.

**SECTION 5. Reporting of Significant Events.**

(a) The Academy covenants to provide, or cause to be provided, notice of the occurrence of any of the following Listed Events with respect to the Bonds, if material, in accordance with the Rule:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
7. Modifications to rights of Bondholders;
8. Bond calls;
9. Defeasance;
10. Release, substitution, or sale of property securing repayment of the Bonds; or
11. Rating changes.

(b) Whenever the Academy obtains knowledge of the occurrence of a Listed Event, the Academy shall as soon as possible determine if such event would constitute material information for the Bondholders, provided that any event under Section 5(a)(1), (8), (9), (10) or (11) above (only with respect to any change in any rating on the Bonds) will always be deemed to be material.

(c) The Academy shall promptly cause a notice of the occurrence of a Listed Event, determined to be material in accordance with the Rule, to be filed with the MSRB and with the State Repository, together with a Material Event Notice Cover Sheet. A sample Information Cover Sheet and instructions for filing the Material Event Notice can be found at the MSRB Website ([www.msrb.org](http://www.msrb.org)). In connection with providing a notice of the occurrence of a Listed Event described in Section 5(a)(9) above, the Academy shall include in the notice explicit disclosure as to whether the Bonds have been escrowed to maturity or escrowed to call, as well as appropriate disclosure of the timing of maturity or call.

(d) The Academy acknowledges that the "rating changes" referred to above in Section 5(a)(11) of this Agreement may include, without limitation, any change in any rating on the Bonds or other indebtedness for which the Academy is liable.

(e) The Academy acknowledges that it is not required to provide a notice of a Listed Event with respect to credit enhancement when the credit enhancement is added after the primary offering of the Bonds,

the Academy does not apply for or participate in obtaining such credit enhancement, and such credit enhancement is not described in the Official Statement.

**SECTION 6. Termination of Reporting Obligation.**

(a) The Academy's obligations under this Agreement shall terminate upon the legal defeasance of the Bonds or the prior redemption or payment in full of all of the Bonds.

(b) This Agreement, or any provision hereof, shall be null and void in the event that the Academy: (i) receives an opinion of nationally recognized bond counsel, addressed to the Academy, to the effect that those portions of the Rule, which require such provisions of this Agreement, do not or no longer apply to the Bonds, whether because such portions of the Rule are invalid, have been repealed, amended or modified, or are otherwise deemed to be inapplicable to the Bonds, as shall be specified in such opinion; and (ii) delivers notice to such effect to the MSRB, and to the State Repository, if any.

**SECTION 7. Dissemination Agent.** The Academy, from time to time, may appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Academy pursuant to this Agreement. The initial Dissemination Agent shall be the Trustee. The Trustee may withdraw from this Agreement upon 30 days' notice to the Academy. Notwithstanding anything to the contrary herein, the Dissemination Agent shall not be responsible for any determination as to the adequacy of the contents or format of any Annual Report, and as to the materiality of any Listed Event.

**SECTION 8. Compensation.** The Academy hereby agrees to compensate the Dissemination Agent for the services provided and the expenses incurred pursuant to this Agreement, in an amount to be agreed upon from time to time hereunder, and to reimburse the Dissemination Agent upon its request for all reasonable expenses, disbursements and advances incurred by the Dissemination Agent hereunder (including any reasonable compensation and expenses of counsel) except any such expense, disbursement or advance that may be attributable to its negligence or willful misconduct.

**SECTION 9. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Agreement and no implied covenants or obligations shall be read into this Agreement. The Dissemination Agent may rely conclusively as to the truth of the statements and correctness of opinions provided to it, which conform to the requirements of this Agreement. The Dissemination Agent may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties, including without limitation any written direction signed by the Academy. The Dissemination Agent may consult with counsel of its choice and the written advice of such counsel or any opinion of counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon, it being understood that for purposes of this provision, that such counsel may be counsel to the Academy.

The Academy agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys' fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties hereunder or in the exercise of any of its rights or powers. The obligations of the Academy under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**SECTION 10. Amendment.** Notwithstanding any other provision of this Agreement, the Academy and the Trustee may amend, and any provision of this Agreement may be waived only to the effect that:

(a) Such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, a change in law or a change in the identity, nature or status of the Academy, or the types of business in which the Academy is engaged;

(b) This Agreement as so amended or taking into account such waiver, would have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, in the opinion of independent legal counsel; and

(c) Such amendment or waiver does not materially impair the interests of the Bondholders, in the opinion of independent legal counsel.

If the amendment or waiver results in a change to the annual financial information required to be included in the Annual Report pursuant to Section 4 of this Agreement, the first Annual Report that contains the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of such change in the type of operating data or financial information being provided. If the amendment or waiver involves a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared based on the new accounting principles and those prepared based on the former accounting principles. The comparison should include a qualitative discussion of such differences and the impact of the changes on the presentation of the financial information. To the extent reasonably feasible, the comparison should also be quantitative. A notice of the change in the accounting principles should be sent by the Academy to each National Repository or the MSRB and to the State Repository. Further, if the annual financial information required to be provided in the Annual Report can no longer be generated because the operations to which it related have been materially changed or discontinued, a statement to that effect shall be included in the first Annual Report that does not include such information.

**SECTION 11. Additional Information.** Nothing in this Agreement shall be deemed to prevent the Academy from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Agreement. If the Academy chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Agreement, the Academy shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 12. Default.** In the event of a failure of the Academy to comply with any provision of this Agreement, any Bondholder may take such actions as may be necessary and appropriate, including seeking mandamus or specific performance by court order, to cause the Academy to comply with its obligations under this Agreement. A default under this Agreement shall not be deemed an Event of Default under the Indenture or the Bonds, and the sole remedy under this Agreement in the event of any failure of the Academy to comply with the Agreement shall be an action to compel performance.

**SECTION 13. Duties of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Agreement.

**SECTION 14. Beneficiaries.** This Agreement shall inure solely to the benefit of the Academy, the Dissemination Agent, the Participating Underwriter, and the Bondholders and shall create no rights in any other person or entity.

**SECTION 15. Governing Law.** This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State. Notwithstanding the foregoing, to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed and interpreted in accordance with such federal securities laws and official interpretations thereof.

EXECUTED and delivered as of the date set forth below.

**OLD REDFORD ACADEMY**

By: \_\_\_\_\_

Its: \_\_\_\_\_

**U.S. BANK NATIONAL ASSOCIATION,  
AS TRUSTEE**

By: \_\_\_\_\_

Its: \_\_\_\_\_

Dated: December 13, 2005



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**\$10,865,000**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES**  
**AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(OLD REDFORD ACADEMY PROJECT), SERIES 2005A**

**\$245,000**  
**MICHIGAN PUBLIC EDUCATIONAL FACILITIES**  
**AUTHORITY**  
**LIMITED OBLIGATION REVENUE BONDS**  
**(OLD REDFORD ACADEMY PROJECT), SERIES 2005B**  
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